The Economist

JANUARY 4TH–10TH 2003 www.economist.com

Should human cloning be banned?
PAGES 11 AND 61

American values and anti-Americanism
PAGES 10 AND 18-20

Lula takes office in Brazil
PAGE 26

Chief executives' agenda in 2003
BY INVITATION, PAGES 54-56

The explosive Mr Kim

(As if Saddam were not enough)

US$4.95 • C$6.95

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Print Edition January 4th 2003

The explosive Mr Kim
America has few options in the face of North Korean bomb-making. Which holds lessons for Iraq … More on this week's lead article

The world this week

Politics this week
Business this week

Leaders

Axis of evil
The explosive Mr Kim

Anti-Americanism
On the rise

Human reproductive cloning
How far to go

Letters

On affirmative action, Venezuela, America's housing market, the EU, baseball

Special Report

American values
Living with a superpower

United States

The Senate Republicans
Allies, not lickspittles

The evil weed
Snuffed out

Oregon's budget
More taxes, anyone?

The beef industry
Big brains, no cattle

Lexington
All the president's fault?

The Americas

Brazil's presidency
Lula's burden of hope

Venezuela's general strike
Pyrrhus of Caracas

Cuba and the United States
The Americans have come

Chile's economy
Going it alone

Correction: Bechtel

Asia

North Korea's nuclear weapons
Closing Pandora's box

South Korea's new president
Sorry, no time for a honeymoon

The Philippines
Sic transit Gloria

China
Mr Bush's Chinese Christmas present

Middle East & Africa

Murder in Yemen
Backlash in the badlands

Iraq and sanctions
Another twist of the screw

Israel's election
The going gets sleazy

A new ruler for Kenya

Previous print editions

Dec 21st 2002
Dec 14th 2002
Dec 7th 2002
Nov 30th 2002
Nov 23rd 2002

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Business

Luxury cars
Is one Rolls-Royce ever enough?

Regulating the diamond trade
A crook's best friend

Corporate debt
In the balance

Japanese corporate restructuring
Picking losers

Tyco
Not guilty, your honour

The theatre business
On with the show

Face value
Jolly boating weather

Special Report

Diasporas
A world of exiles

Finance & Economics

Investing
The Foresight saga, continued

Exchange rates
Time for europhoria?

The Wall Street settlement
Unclean slate

South-East Asian debt
Caught up in court

Reinsurance
Saving SCOR

Science & Technology

Human cloning
Copy or counterfeit?

Taxonomy
What's in a name?

Quantum computing
Heads and tails

Medical technology
Light at the end of the tunnel

Books & Arts

Shakespeare's “Twelfth Night”
So long London, hello New York

Contrarian investing
Beating the street

Memories of Palestine
Uprooted

Scottish nationalism
Puzzles of patriotism

The ski industry
Mogul moguls

New fiction
Not for tots

Advertisement

Rainbow-coloured newcomers

Europe

The Balkans
Who's in charge?

France and terrorism
Fertile ground

Russia and Chechnya
Nothing normal

Greece and the European Union
Taking the chair

Charlemagne
And for my next task

Britain

E-government
No thanks, we prefer shopping

Criminal justice
Tilting the balance

Cricket and Zimbabwe
No ball

Economic development
Game on

Bagehot
The tipping point

New fiction
Pork scratchings

Obituary

James Ferman

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

GDP per person

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Commodity prices

Emerging-Market Indicators

Overview

GDP growth forecasts, 2003

Economy

Financial markets

Articles flagged with this icon are printed only in the British edition of *The Economist*

Advertisement

Classifieds

Jobs

Pre-press Technician
Based: Central London The Economist Newspaper is seeking a Pre-press Technician to join the ....

Business / Consumer

WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders

Republic of Ghana Ministry of Trade, Industry, PSD & PSI - Request for Expression of Interest: Preparation of Competition Bill for Ghana

Jobs

Lead Economist
The Social Protection and Labor Sector (HDNSP) contributes to The World Bank's mission of pov....

Tenders

Requests Expressions of Interest for The Development of a New Lignite Mining Facility and Associated New Electric Generating and Transmission

Jobs

Energy Analyst
International Energy Forum Secretariat (IEFS) Riyadh, Saudi Arabia The I....

Sponsors' feature

About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Jan 2nd 2003
From The Economist print edition

Bargaining brinkmanship

In a new act of defiance, **North Korea** expelled the United Nations inspectors who had been monitoring a nuclear reactor at Yongbyon. The North wants the United States to resume shipments of fuel oil and other aid, cut off after it admitted working on a nuclear-weapons programme. President George Bush said he hoped that the stand-off could be solved by diplomatic means.

See article: North Korea's nuclear weapons

Roh Moo-hyun was elected president of **South Korea**. In his election campaign he advocated a policy of conciliation with North Korea. A South Korean envoy called on China to stop the North from reactivating the Yongbyon nuclear reactor.

Reuters

See article: South Korea's new president

President Gloria Arroyo of the **Philippines** said she would not seek another term of office in 2004.

See article: Philippine politics

Ten people were killed in a **grenade blast** in a street market near Tacurong, in the southern Philippines. The area has been the scene of many attacks by Muslim guerrillas.

China said that it hopes to put a man into space in 2003.

A cyclone hit the tiny **South Pacific** islands of Tikopia, Fataka and Anuta, in the Solomons, damaging almost every building. Several thousand people live on the islands.

Asylum seekers in a Sydney detention centre set fire to buildings and tried to escape. Rioting broke out in several other detention centres in **Australia**. The long period that detainees wait for their asylum claims to be assessed was blamed for the unrest.

A change, at last

Kenya's opposition won a presidential and parliamentary election for the first time since independence in 1963. The new president, Mwai Kibaki, promised to curb the corruption that flourished under his predecessor, Daniel arap Moi.

See article: A new ruler for Kenya

Togo's parliament amended the constitution to allow Gnassingbé Eyadéma, ruler since 1967, and thus Africa's longest-serving head of state, to carry on. Civil servants will not now have to change the picture on their lapel badges.

Three American missionaries were murdered at Jibla hospital in southern **Yemen** by an Islamic militant who is reported to have said that he did it to get closer to Allah.

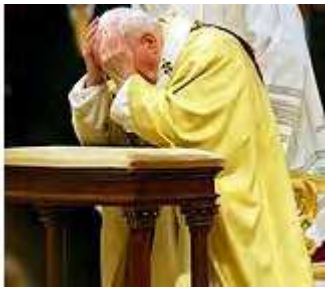
See article: Murder in Yemen

Israel's election commission banned two **Arab-Israeli politicians**, Azmi Bishara and Ahmed Tibi, from standing for re-election to the Knesset. The decisions will be referred automatically to the Supreme Court.

See article: Israel's election

Pope John Paul used his New Year message to appeal for peace in the Middle East. He called on Israelis and Arabs to end their conflict, and, without directly mentioning Iraq, on world leaders to find peaceful solutions to international problems.

Reuters



Ibrahim Hamidi, the correspondent of *Al Hayat* in Damascus, was arrested and is to be tried for “disseminating false news”. Mr Hamidi, a Syrian citizen, reported that his country was preparing to receive Iraqi refugees if Iraq was attacked. His paper published an official Syrian denial.

No friends of Russia

Rebel **Chechen** suicide-bombers blew up the headquarters of the pro-Russian government in Grozny, Chechnya's capital, killing around 100 people.

See article: Russia and Chechnya

On December 22nd **Montenegrins** failed to elect a new president because under half the registered voters turned out, replicating a similar failure by voters a fortnight earlier in Serbia, where the speaker of parliament, Natasa Micic, became the acting president on December 30th.

EPA

See article: Serbia's political impasse

The way was opened for Recep Tayyip Erdogan, leader of **Turkey's** governing party, to stand for parliament—probably next month—and so qualify to replace the stop-gap prime minister.

Dismaying European aircraft makers, **Poland** agreed to buy 48 Lockheed F-16 fighters, in a deal heavily subsidised by the American government. The Poles will get a low-interest $3.8 billion loan, and make no capital payments before 2011.

French police found two guns and explosives in the car of a baggage handler at Paris's Roissy-Charles de Gaulle airport. The man, a French citizen of Algerian origin, was arrested, as were his father, two brothers and a friend.

See article: Islamic terrorists in France

Dutch opinion polls suggested that the two big parties in the outgoing government might jointly reach an overall majority—76 seats—in the election on January 22nd. But their former coalition partner, the populist Pim Fortuyn List, is likely to slump from 26 seats last May to four or five.

Bad atmosphere

In America, nine eastern states filed a lawsuit against the Bush administration, challenging its decision to relax **pollution rules** laid down in the Clean Air Act of 1970.

For the first time in its present build-up, the United States sent a full division—the 3rd Infantry Division with 11,000 soldiers—to Kuwait as part of its preparations for a possible **war with Iraq**.

See article: Iraq and sanctions

The mayor of **New York**, Michael Bloomberg, signed a bill that bans smoking in almost all the city's 14,000 bars and restaurants.

See article: New York gives up smoking

Left, a little

To the cheers of some 100,000 supporters who gathered in Brasilia, Luiz Inácio Lula da Silva, a former trade unionist from the Workers' Party, was sworn in as **Brazil's new president**. His election represents a swing to the left, but only up to a point. He has appointed a moderate cabinet, and lacks a majority in Congress.

See article: Brazil's new president

An opposition-led general strike against **Venezuela's** president, Hugo Chávez, appeared to be losing momentum as it ground into its fifth week. The government imported petrol from Brazil and claimed that it was regaining control of strikebound oil facilities. The opposition said that the strike would continue.

EPA

See article: Venezuela's general strike

Mexico's lethal love of fireworks claimed more victims: at least 28 people were killed and over 50 injured after an explosion in a market full of fireworks stalls in Veracruz.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Jan 2nd 2003
From The Economist print edition

Tyco in the clear

An inquiry into **Tyco** found that the industrial conglomerate's accounting practices had not involved significant fraud. However, “aggressive accounting” and bad corporate governance had resulted in $382m in accounting errors between 1999 and 2002. The investigation concluded that the errors were not big enough to be considered “material”. The company's shares jumped.

See article: Is the worst over for Tyco?

Gary Winnick resigned as chairman of **Global Crossing** shortly after America's Justice Department decided not to press criminal charges against executives who made big sums by selling shares as the company foundered. The telecoms company, which sought bankruptcy protection at the start of 2002, is still under scrutiny by the Securities and Exchange Commission and many investors have filed lawsuits against it.

Ten leading **Wall Street** firms agreed to pay $1.4 billion to settle allegations of mis-selling stock offerings during the technology boom after a series of investigations by America's financial watchdogs. The settlement comprises $925m in fines, a $463m contribution to finance independent-research firms over the next five years and $85m for educating investors. The agreement includes strict rules for avoiding similar conflicts of interest at investment banks.

See article: The Wall Street settlement

Happy pills

GlaxoSmithKline was cheered by a pre-trial court decision in America that it claims will defend Paxil, its money-spinning antidepressant, from competition by generic drugmakers. The British company's case against Apotex, a Canadian rival, will now go to trial; a victory could secure GSK's patent on the drug until 2006.

Gaz de France said it would pay some $1 billion for the German gas-production and distribution business of Preussag Energie. Preussag is owned by TUI, a German travel firm that wants to divest non-core assets; the sale to Gaz de France will allow the state-owned French company to boost its presence in Europe's biggest energy market.

General Electric faced strike action for the first time in 30 years. A union representing about 6% of the American workforce at the industrial giant voted for action over a big increase in employees' contributions to GE's managed healthcare plan.

Rolls-Royce cars, once considered as British as a London gentleman's club and boasting a similar interior of polished wood and leather, officially became a subsidiary of Germany's **BMW**. The company unveiled the RR01, the world's longest unstretched car.

See article: A possible boom in luxury cars

Third-generation lucky

Spain's government eased the burden on four mobile-phone companies of providing expensive **third-**

generation services. It agreed to return over *euro*5 billion ($5.2 billion) in bank guarantees for 3G network investment to Telefonica Moviles, Vodafone, Amena and Xfera. It has already returned some *euro*900m.

AT&T scaled back its plans to launch 3G services in America in partnership with Japan's NTT DoCoMo. The country's third-largest mobile operator will launch networks in just four cities by 2004 rather than 13, as originally intended.

Regulators in the Netherlands fined five mobile-phone companies a total of *euro*88m ($92m) for **fixing fees** paid to telephone retailers. The companies included the Dutch subsidiaries of Vodafone and Deutsche Telekom, as well as KPN, the largest Dutch mobile operator.

An American judge ordered **Microsoft** to include Java, a programming language produced by a rival, **Sun Microsystems**, in its Windows operating software to allow competition in “a market untainted by the effects of Microsoft's past antitrust violations”. The software giant said it would appeal.

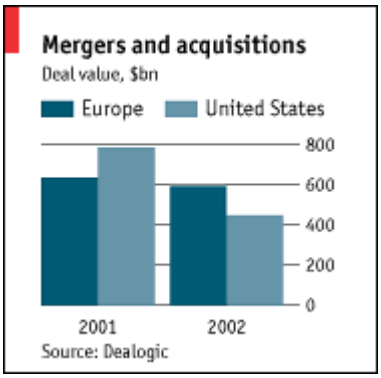
Europhiles

The **euro** hit a three-year high against the dollar as investors fretted about a war in Iraq and rising tensions between America and North Korea. The price of oil hit a two-year high, then fell back after comments by OPEC suggesting that it would raise output to mitigate the effects of Venezuela's oil strike and fears of a war in Iraq.

See article: The euro makes a comeback

China's economy grew by 8% in 2002 but the pace of expansion could slow down next year as export growth and government spending, the driving forces behind the current boom, are unlikely to stay at their present levels.

The parlous state of the world economy hit the value of **global mergers and acquisitions**. The value of deals fell by 26% in 2002 to $1.36 trillion compared with $1.83 trillion the year before. Deals involving American targets plummeted by 43% to $447 billion. European deals, which suffered a decline of only 7%, outstripped America.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Axis of evil

The explosive Mr Kim

Jan 2nd 2003
From The Economist print edition

America has few options in the face of North Korean bomb-making. Which holds lessons for Iraq

HE IS putting on a brave face, but this cannot have been a happy festive season for America's president. Less than a year ago, in his state of the union address, George Bush promised to make the prevention of nuclear proliferation a priority of his administration. He singled out three countries—Iraq, Iran and North Korea—as “an axis of evil” in hot pursuit of weapons of mass destruction. They would, he said, be stopped: the United States “will not permit the world's most dangerous regimes to threaten us with the world's most destructive weapons”.

Mr Bush's next state of the union speech falls due at the end of January, one day after United Nations' arms inspectors are supposed to declare whether they believe Saddam Hussein is still seeking or concealing weapons of mass destruction. This could start the countdown to a war to topple the Iraqi dictator. But the choreography has now been spoiled by developments in another bit of the evil axis. Over Christmas, North Korea began to deliver fuel rods to the plutonium reactor at Yongbyon, and deactivated the cameras and electronic monitors UN inspectors have kept there since 1994. On New Year's Eve the North Koreans kicked the inspectors out, and threatened to withdraw from the NPT, the non-proliferation treaty under which they promise not to acquire nuclear weapons. Just when the Americans thought they had Saddam in their gunsights, attention has swivelled to Kim Jong Il, a no less brutal dictator much closer than his Iraqi counterpart to acquiring nuclear weapons, if he has not done so already (see article).

The same, only different

All this presents Mr Bush with a double embarrassment. It risks making him look weak. For all his previous tough talk about pre-emption, Mr Bush says for now that he hopes to sort out North Korea with diplomacy, not force. It also risks making him look inconsistent. Though he claims to be seeking a diplomatic solution in Iraq as well, it is plain to all that Mr Bush is ready to go to war the moment it becomes clear that Mr Hussein has squandered his “last chance” to save himself. Why, harrumph the president's critics, especially those who vehemently oppose war in Iraq, is America not preparing the same sauce for the Korean goose as for the Iraqi gander?

And yet the answer could not be more obvious. Mr Kim and Mr Hussein are perfect examples of the problem Mr Bush pinpointed in his evil-axis speech: the world's most dangerous regimes seeking the world's most destructive weapons. But the risks of using force in each case are different. This is not only because North Korea may have a few nuclear weapons already. It is because an attack on North Korea would almost certainly lead to carnage in the South. Seoul, the South Korean capital, is only a handful of miles from the demilitarised zone which separates the two countries, along which some 1m armed men are deployed. In a war the city could be flattened by the North's artillery. Iraq has not yet acquired nuclear weapons; and its depleted missile force, though a danger, is thought to pose no equivalent threat to its neighbours. A “consistent” approach that insisted on using force in all cases, regardless of the consequences, would be an absurdity.

There is another sort of difference between Iraq and North Korea. Saddam remains in breach of a

catalogue of UN Security Council resolutions, the key ones having been brought under Chapter Seven of the UN Charter, which can permit the use of force in enforcing the Security Council's will. In the case of North Korea, no such resolutions exist. Whereas Saddam has defied the UN since the end of the Gulf War in 1991, North Korea has until recently (when the Americans found out about a secret uranium-enrichment programme) tried to give the impression of co-operating with international inspection regimes. The North Koreans have now put themselves thoroughly in the wrong; but it is reasonable to give diplomats a space of time in which to do their work. Saddam has already been granted more than a decade of jaw-jaw.

Having failed in Iraq, can jaw-jaw resolve North Korea? Perhaps. The North's official media continue to insist that the country wants to resume talks with America. And the Americans, having first demanded that the North abandon its nuclear programmes before any talks could start, are sliding away from this stance. A senior State Department official is due to visit South Korea and Japan, and a regional meeting including the North Koreans may be possible. Furthermore, the North has so far failed to drive too big a wedge between the countries that share an interest in preventing it becoming a full-fledged nuclear power. America, Russia, China, South Korea and Japan have all urged it back from the brink. And America, South Korea and Japan agreed jointly to cut off the supply of fuel-oil under a 1994 agreement until it does.

However, this unanimity may not last. America would like to step up economic pressure on the North, but the wretched place is at starving-point already. Neither the Chinese nor the South would welcome a total collapse, or the refugees such a collapse would surely bring. There is, moreover, little agreement over the price worth paying to induce Mr Kim to take the inspectors back and put his plutonium and uranium under lock and key. The Americans are probably less inclined than are the nearer neighbours to give in to nuclear blackmail in return for a quiet life. It is not even clear that Mr Kim would be content for his blackmail to succeed. Last time the North was bought off—with the Clinton administration's 1994 “framework agreement”—it took the bribes but went on to develop that secret uranium-enrichment programme anyway.

A stand-off in the Korean peninsula is plainly not the prelude Mr Bush would have chosen for a war in Iraq. On top of war preparations in the Middle East, he must now struggle to keep an Asian coalition together without making too many concessions to those who will prefer to appease Mr Kim. If serial nuclear blackmail were to succeed in North Korea, other countries can be expected to take note. And Mr Kim will himself take note if, against all the odds, the distraction of North Korea lets Saddam Hussein wriggle free yet again. In more ways than seemed possible before Christmas, the credibility of Mr Bush's foreign policy is now on the line.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Anti-Americanism

On the rise

Jan 2nd 2003
From The Economist print edition

Criticism of America is inevitable and even healthy—but don't let it get out of hand

DEALING with North Korea and Iraq, along with assorted other problems of international affairs, will be hard enough. Dealing with the apparent tide of anti-American feeling around the globe promises to be an even harder task during 2003. Even in South Korea, protected as it has been from a hostile North by American forces and friendship for half a century, the news that its brutal, dictatorial neighbour was playing nuclear games was taken as a cue for street protests against the United States for having supposedly provoked the North by its tough line against it. Meanwhile, in Europe and in parts of the Arab world, it was being criticised for taking a softer line on North Korea than on Iraq. No radio phone-in on world affairs is complete, even in friendly Britain, without callers accusing America of being reckless, bullying, unprincipled, ideologically-driven (ie, too principled), greedy for oil, Zionist, led by a moron, led by a Machiavellian election-stealing dictator...and countless other accusations.

Wide but not deep

Anti-Americanism is real and has been growing ever since the September 11th attacks, not because of those attacks but because America has, since then, been using or talking about using military force. It is harder, though, to gauge the trend's significance. In part, it is just the unhappy lot of the happy leader. “Envy is a worm that does not rest, it is the cause of the resentment and hatred shown to us by Turks, Arabs, Jews, French, Italians, Germans, Czechs, English and Scots.” Thus a Spanish soldier writing in the 1580s, when his country was the world's hyperpower; but it could just as easily have been a Briton in the 19th century or a Roman in the second. Now it is America's turn, as in truth it has been ever since the Aldermaston anti-nuke march, Vietnam and the cruise-missile controversy during the cold war. And America gives as good as it gets, especially since the shock of the Twin Towers. Europeans, it is often said, are on another planet; they have no moral compass; they are appeasers and freeloaders; and, because they so often criticise Israel too, they are anti-Semitic.

Moreover, although the trend may be unfavourable, its scale does not yet look daunting. The values of America and most of its allies are not, in truth, that different and the dislikes not deep. Recent opinion surveys do show that anti-Americanism has risen (see article). But it is still a minority point of view. In one recent audit of people in 42 countries by the Pew Research Centre, America was looked on favourably by most people in 35 of them (a superpower batting average that would have been beyond Spain in the 16th century). Most people among America's allies support the war on terror; most admire its culture; and nearly all of them would feel less safe if there were another superpower to challenge it.

This admiration has practical consequences. Despite the protests in the streets, leaders in most countries have gone along with America's policies since September 11th. When George Bush took the issue of Iraq to the UN Security Council, he received (eventually) unanimous support. When he “arrogantly” revoked the Anti-Ballistic Missile Treaty, Russia and China gave their consent. America has 17 fully-fledged military bases beyond its borders, thanks to many countries being happy to play host to them. When push comes to shove, America has generally got what it wanted from its allies, not just because it is so much stronger militarily, but because, as Mr Bush has put it, there are “common values of freedom, human rights and democracy”. In the end—or even in the beginning—other countries tend to want what America wants, and to trust it, more or less, to do the right thing.

Friendships still need nurturing

The question, though, is whether this can be taken for granted or whether a time might soon come when the alignment of wants, or the trust, might collapse. It is an odd question to have to pose, right now, in 2003. During the cold war, America was quite often brusque and unprincipled in pursuit of its basic goal—the defeat, or holding at bay, of communism. It continues to be criticised for things it did and dictators it supported 20, 30 or even 40 years ago, as if nothing had changed in the meantime. But it has: since the end of the cold war democracy has spread widely and American policy has become more plainly directed at human rights and democracy than ever before. Mr Bush's speeches, indeed, have echoed the idealistic, human rights-oriented words of Woodrow Wilson more than have those of most other recent presidents. At the level of values there seems now to be less of a divide, not more.

Two aspects of the United States make that judgment inadequate, however: one cultural, the other political. The opinion surveys analysed in our special report show that although America, Europe and other allies do share common values, America is an outlier among the rich countries in terms of its religiosity, patriotism and traditionalism. Most European countries, and Japan too, have become more secular in recent years. America has become more traditional. Far from uniting the old allies, in other words, Mr Bush's Wilsonianism may help to divide them; although Europeans agree with his ends, many feel uncomfortable with the fervour and moral idealism that—they fear—determine the means.

The political aspect is more secular: America's constitutional system of divided government, combined with its belief in pluralism and free speech. These mean that not only is political debate in America more often about values and morals than it is in Europe but also that all political debate is noisier and more confusing. Washington is full of voices saying all sorts of different things, many within the same party, some even within the same administration. Critics, or just the plain scared, among its allies can always find somebody who has just said something that they find objectionable.

This, combined with the revived use by America of military power since September 11th, may explain why anti-American sentiment has grown. The main solution to it will lie in successful actions that prove—or reconfirm—that American ends are good and its methods sound. But it is not enough to shrug and wait for that joyous feeling of vindication. For anti-American sentiment matters because America cannot achieve its ends on its own. The danger is that more allied leaders will follow Gerhard Schröder's example in last year's German election and decide that anti-American opinion among swing voters can be exploited politically—which, in turn, could help thwart the very actions, in Iraq, the Middle East, Central Asia, Korea and elsewhere, that America needs to pull off if it is to convince its critics.

The implication may be galling for some in Washington, but it is clear. Even when it feels it is plainly in the right, the superpower needs to make a greater effort to consult its allies and persuade them to support it. And it must do so publicly, in full view of public opinion, rather than merely through private phone calls between the world's capitals or by granting audiences in Washington. It is a new form of the old principle of *noblesse oblige*: in its own interests, America needs its leaders to bend over backwards to nurture its friendships and to show that other people's views matter. As long as their help matters, there is no real alternative.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Human reproductive cloning

How far to go

Jan 2nd 2003
From The Economist print edition

Better to control and regulate human cloning than to try to ban it

Get article background

IT MAY yet be a spoof. Two groups now claim to have cloned a baby. A wacky sect, the Raelians, announced on December 27th the birth of Eve, a baby girl, and boasted that more cloned children are on the way (see article). Meanwhile Severino Antinori, an Italian fertility specialist, has promised his first clone later this month. As *The Economist* went to press, the Raelians had yet to present proof that Eve is a clone of her mother. Compared with the sect, Dr Antinori is almost conventional, but most scientists dismiss him too as a showman. However, even if both claims prove false, others will follow. Governments need urgently to decide whether and when to allow scientific work on human reproductive cloning.

Since Dolly the cloned sheep made her public debut in 1997, human cloning has been more a question of "when" than of "if". Yet for almost six years, legislators in most countries have done little to regulate this area of science. Britain is one of a mere 20 or so countries that ban reproductive cloning. Attempts at the United Nations to draw up an international treaty regulating human reproductive cloning have gone nowhere. This lost opportunity is lamentable. International bans take years to implement, even against evils such as biological weapons. Agreement on reproductive cloning will be harder still, given that most of those who demand it are bent not on world destruction, but on personal happiness—overcoming infertility or assuaging the loss of a previous child.

Dr Frankenstein, I presume

Plenty of people see a simple answer: ban cloning. America hopes to stop research not just on reproductive cloning but on the therapeutic cloning of embryos, created as a source of stem cells and destroyed within 14 days. Certainly from a medical perspective, reproductive cloning is fraught with risk. For every healthy animal cloned, many die along the way, and others suffer complications in later life. Scientists do not know what accounts for all these animal casualties, and until they do, it would be foolhardy to pursue experiments in humans.

As for ethics, some objectors dislike the idea of taking "creation" out of God's hands—an objection also commonly levelled against *in vitro* fertilisation or indeed abortion. Others feel that people will clone for selfish reasons, such as the desire to restore to life a dead child or parent or to have a handy tissue donor, rather than because of the simple desire for a child. Others again jib at the idea of creating a human being who is biologically a carbon copy of another.

For those who think that creating humans should be left entirely to the Almighty, the ethical case against

cloning is cast-iron. For others, it is less clear-cut. There is currently a powerful case on safety grounds for a moratorium on human experiments. But other arguments are weaker. A cloned child is likely to be a wanted child, offering hope to couples where one partner carries a deadly genetic mutation or existing fertility treatment is useless. To make a genetic copy of one parent or of one sibling is not very different from what nature already does with identical twins. And, although it may be wrong to create a child for selfish reasons, countless generations have seen their offspring as a workforce, pension plan or heir.

Once the evidence on animal cloning is more reassuring, governments should make human cloning subject to the same regulatory demands as any other experimental science. Human-cloning research could take place, tightly controlled, and progress like other experimental procedures, with strictly enforced licences for those who conduct research and harsh penalties for those who work without them. Embryos created in the course of human therapeutic cloning might also be studied to understand what happens, and what could go wrong, at the earliest stages of reproductive cloning.

To ban all cloning research, therapeutic as well as reproductive, as America proposes, is certainly a mistake. It scuppered the UN's attempts to reach agreement on reproductive cloning alone. In any case, an indefinite ban on cloning research could have worse consequences than careful regulation. If Eve is indeed a copy of her mother, then the scientific hurdles to human cloning may be less formidable than is now believed. The goal of policy should be to ensure that research on cloning is conducted by those who know most about it, and about how to develop the technology, rather than by amateurs.

Like the war on drugs, bans on supply will not cut off demand. The desperation of infertile or bereaved couples is as all consuming as any craving for dope. The only hope of restraining this yearning will be to give such people hope, talking openly about the risks of cloning for mothers and babies, and explaining that the technology is advancing slowly but surely until it is safe. Only then may people wait, as they do for many experimental therapies, rather than turn to the renegades.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Jan 2nd 2003
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

In the affirmative

SIR – Your condemnation of affirmative action is overly simplistic in arguing that it should be replaced by policy designed to make poor schools better ("Orwell and beyond", December 7th). The struggle to uplift America's poorer areas, particularly the inner-cities, has been the salient social-policy issue of the past 50 years. Improving schools is intimately linked to a number of issues such as improving housing, labour-market options and health services. The political and social will of America is not geared towards such a comprehensive solution. In its absence, affirmative action, despite its flaws, plays an important role in "levelling the playing field".

Pareen Shah
Sterling Heights, Michigan

SIR – Your claim that affirmative action is outdated is contradicted by the remarks of Trent Lott, prior to his resignation, that America could have avoided many of its problems if it had only elected a segregationist as president. Racism in America no longer hides beneath white cloaks but behind business suits. It may fool you, but it hasn't fooled the 70m Americans of colour.

Patricia Rojas
Washington, DC

SIR – Diversity is beneficial to all students, not just those who are accepted to achieve that diversity. A non-white student brings a different perspective and ideas that other students might not be exposed to otherwise.

Matt Graham
New York

Variance over Venezuela

SIR – Journalism should be about informing, not preaching. This means showing both sides of a story. Preaching implies divulging the truth revealed from the pulpit. Your recent references to Venezuela have to do with preaching, not informing ("The rights and wrongs of Chavez", December 14th). When a society is polarised it is like a feuding couple; usually the responsibilities should be shared by each half. You should show the other side of the coin when referring to Venezuela instead of laying all responsibilities on the government. It is possible that this will not help to improve the image of Venezuela, but at least it will help to restore the objectivity of *The Economist*.

Alfredo Toro Hardy
Ambassador of Venezuela
London

SIR – Your leader on Venezuela hits the right tone and ends with the inescapably correct conclusion but fails on several key points. First, America, unlike most European governments, has been singularly correct in condemning President Hugo Chavez's tactics and disregard for democratic traditions, and has appropriately recognised the validity of the claims of the government's opponents. America was correct to ignore the so-called coup last April, as Mr Chavez rose to power through elections, but elections alone

do not confer legitimacy.

Second, Mr Chavez has not just begun to govern in an illegitimate manner. The troubles began at least 18 months ago when he turned his armed paramilitary thugs against an increasingly vocal majority of Venezuelans. Finally, Mr Chavez has not “started to disregard his constitution”. He has referred to it as “the bitch” since it was ratified two years ago, implying that he can violate it, which he has done whenever and however he pleases.

G.R. Zurita
New York

Home economics

SIR – Your recent article on America's housing crisis (“The roof that costs too much”, December 7th) highlights a growing problem that begs for federal action. Housing costs continue to rise faster than incomes. Already, more than 14m American families spend more than half of their income on housing and that number is growing daily. The housing crisis does not just impact the poor or those living in large cities. Families dependent on a teacher's salary cannot afford to buy a median-priced home in more than three-quarters of the nation's 60 largest housing markets. Retail salespeople are able to afford rent on a one-bedroom apartment in only three of the 60.

Earlier in 2002, mayors gathered in Washington, DC, to draft a comprehensive plan to address the housing crisis. You fail to report on this plan, which recommends:

• Creating a new national home-ownership tax credit to make buying a home more affordable for those with low and moderate incomes. About 90% of the benefits from the existing mortgage-interest tax deduction go to those with incomes over $40,000 per year.

• Establishing a national affordable-housing trust fund to provide a reliable and dedicated stream of funding to address the housing needs primarily of those with very low incomes. More than 200 communities across the country have such funds already.

• Promoting a vast expansion of employer-assisted housing programmes for the benefit of working families.

We have put forward these ideas to help jump-start an important discussion about how best to address our nation's affordable-housing crisis.

Thomas Menino
Mayor of Boston
Boston

EUphoria challenged

SIR – Charlemagne rightly argues that rapid “house training” in Brussels creates a barrier to connecting the EU with its people (December 7th). If citizens perceive that Brussels is a collusive club where people agree about everything and pretend that all aspects of the EU are perfect there can be no grounds for trust or respect. Cautious and technocratic debate will not win hearts or minds.

Unless we raise the temperature of the debate then the sand on which the EU house is built may wash away. We at the British Council in Brussels are deliberately sponsoring debates that ask questions that are emotive and political. Do we need a homogeneous society to create a European demos? How far should integration go? What is the EU there for? This is not about landing on one side of the sterile Europhile-Eurosceptic discussion; it is about addressing fundamental issues of identity, transparency and democratic accountability.

Stephen Kinnock
Director
British Council
Brussels

America's world role

SIR – You charge that American baseball's World Series is “decidedly non-global” (Face value, December 7th). A couple of years ago, the most common surname in baseball was Martinez. Among the most popular players you will find names such as Sosa, Tejada, Hernandez and Santiago, not to mention Ichiro, Park, Kim and Shinjo. Our baseball leagues contain the best from the entire baseball-playing world.

America is unlikely to field a team competitive in cricket soon so I am not offended that you regard a contest between England, Australia, India, the West Indies and the other few cricket-playing nations as a world championship simply because the rest of the world is not interested in participating. If you Brits can field a competitive baseball team, I will petition Major League Baseball to let you play.

Nicholas Shenkin
Oakland, California

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

American values

Living with a superpower

Jan 2nd 2003
From The Economist print edition

Some values are held in common by America and its allies. As three studies show, many others are not

“WE SHARE common values—the common values of freedom, human rights and democracy.” Thus George Bush in the Czech Republic on November 21st; but it could have been him, his national security adviser or his secretary of state at almost any time.

Now consider this: “It is time to stop pretending that Europeans and Americans share a common view of the world... Americans are from Mars and Europeans are from Venus.” Thus the Carnegie Endowment's Robert Kagan; but it could have been any number of transatlantic pessimists at any point in the past two years.

The question of “values” is one of the more contentious and frustrating parts of the foreign-policy debate. Obviously, values matter in themselves and in their influence on the conduct of a nation's affairs. Equally obviously, Europeans and Americans both share and dispute “basic” values. But a concept that can support flatly contradictory views of the world and transatlantic relations evidently stands in need of refinement.

Three new reports attempt to do that job. One cannot say they resolve the question of whether shared values are more important than contested ones. But at least they provide a way of thinking about and judging the so-called “values debate”.

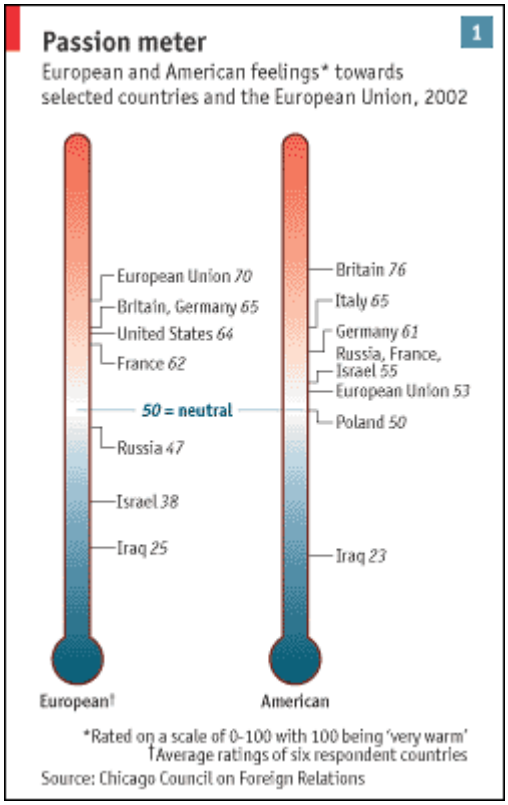
Last month, the Pew Research Centre published the broadest single opinion poll so far taken of national attitudes in 44 countries. In general, the findings bear out the president's view, rather than Mr Kagan's: more seems to unite America and its allies than divide them.

In 2002, 61% of Germans, 63% of the French and 75% of Britons said they had a favourable view of the United States. Majorities of the populations liked America in 35 of the 42 countries where this question was asked (it was banned in China).

It is true that America's image has slipped a bit. The pro-American share of the population has fallen since 2000 by between four and 17 points in every west European country bar one (France, where opinion was least favourable to begin with). All the same, the reservoir of goodwill remains fairly deep and reports of sharply rising anti-Americanism in Europe seem to be exaggerated.

This finding is at odds with the reams of editorialising about

growing hostility between America and the rest of the world. But it is consistent with another recent survey by the German Marshall Fund and the Chicago Council on Foreign Relations (see chart 1). Asked to rate other countries on a scale of one to 100, the six European countries rated America at 64 (more than France), while Americans gave Europeans between 55 (for France) and 75 (for Britain). Feelings towards Israel diverge sharply: it is rated at only 38 in Europe, against 55 in America. But despite that divide, and whatever the elites may say, the ordinary folk on either side of the Atlantic continue to like one another.



The two sides also share a number of more specific similarities. The Pew study found that between two-thirds and three-quarters of Europeans support “the US-led war on terror”. Between two-thirds and four-fifths called Iraq a serious threat. Everyone admires American science, technology and popular culture.

In both the Marshall Fund and Pew studies, there were surprisingly few significant differences in public attitudes towards the armed forces (around three-quarters think their role in their countries is positive), nor was there much difference in public readiness to use force abroad. The Marshall study found that support for multilateral institutions like the United Nations or NATO is every bit as strong in America as Europe. In the Pew study, majorities in nearly every country said the world would be less safe if there were a rival superpower (see table below). This was true even in Russia.

Suspicious minds

% of respondents who:*

	Think the spread of American ideas and customs is a bad thing	*Dislike American ideas about democracy*	*Think the world would be more dangerous if another country matched America militarily*	*Think that when differences occur with America, it is because of (my country's) different values*
Britain	50	42	60	41
France	71	53	64	33
Germany	67	45	63	37
Italy	58	37	54	44
Czech Republic	61	30	53	62
Poland	55	30	46	27
Russia	68	46	53	37
Egypt	84	na†	55	38
Jordan	82	69	63	35
Lebanon	67	45	54	35
Pakistan	81	60	51	14
Turkey	78	50	44	35
Uzbekistan	56	22	49	54
Indonesia	73	40	68	66
Japan	35	27	88	61

Source: Pew Research Centre *Selected countries †This question not allowed in Egypt

Strikingly, over 80% of Americans say they want strong international leadership from the European Union, while over 60% of Europeans say they want the same thing from America. And when asked whether differences between their countries and America were the result of conflicting values or conflicting policies, most respondents in west European, Latin American and Muslim countries chose policies.

Divisions of the ways

All this sounds like music to the ears of the Bush administration. It argues that the way to win hearts and minds is to emphasise universal values: explain your policies, of course, but stress that America strives for values which everyone shares. Unfortunately, there is also much in the Pew study which casts doubt on that idea.

For one thing, the reservoir of goodwill seems to run dry in the Muslim world. The Pew study found that large majorities in four of America's main Muslim allies—Egypt, Pakistan, Jordan and Turkey—dislike America. There are obviously difficulties in measuring opinion in some of these places, but the results are still striking: in Egypt, 6% were favourable, 69% unfavourable; in Jordan, 25% and 75%.

Even where opinion overall is more flattering, as in Europe, there are signs of cultural clashes. If policies were the main problem, rather than values, you would expect people to have a higher opinion of Americans than of America. But the distinction is fading. West Europeans have a slightly more positive view of the people than the country, but they are exceptions: only 14 of 43 countries expressed more positive views about Americans than of America. And even though most Europeans say they like America, between half (in Britain) and three-quarters (in France) also say the spread of American ideas and customs is bad. As many Europeans say they dislike American ideas about democracy as like them. And this is from the part of the world that knows and claims to like America best.

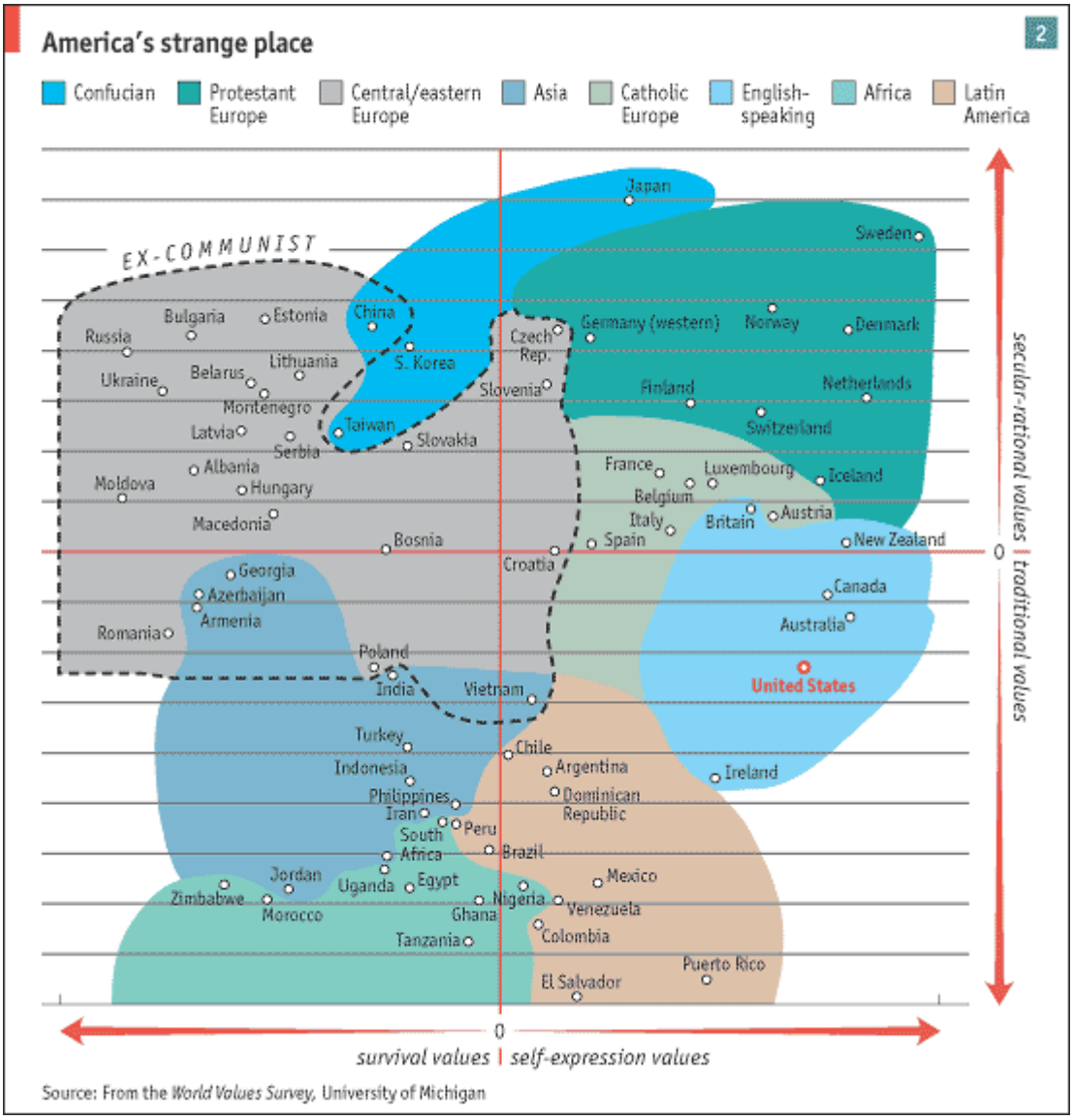
In other words, people outside Muslim countries like America but not some of the most important things it stands for. What is one to make of that conflicting evidence? The short answer is that Europeans and Americans dispute some values and share others. But one can do better than that. Consider the third recent report, the world values survey run by the University of Michigan.

Unlike the other two polls, this survey goes back a long way. The university has been sending out hundreds of questions for the past 25 years (it now covers 78 countries with 85% of the world's population). Its distinctive feature is the way it organises the replies. It arranges them in two broad categories. The first it calls traditional values; the second, values of self-expression.

The survey defines “traditional values” as those of religion, family and country. Traditionalists say religion is important in their lives. They have a strong sense of national pride, think children should be taught to obey and that the first duty of a child is to make his or her parents proud. They say abortion, euthanasia, divorce and suicide are never justifiable. At the other end of this spectrum are “secular-rational” values: they emphasise the opposite qualities.

The other category looks at “quality of life” attributes. At one end of this spectrum are the values people hold when the struggle for survival is uppermost: they say that economic and physical security are more important than self-expression. People who cannot take food or safety for granted tend to dislike foreigners, homosexuals and people with AIDS. They are wary of any form of political activity, even signing a petition. And they think men make better political leaders than women. “Self-expression” values are the opposite.

Obviously, these ideas overlap. The difference between the two is actually rooted in an academic theory of development (not that it matters). The notion is that industrialisation turns traditional societies into secular-rational ones, while post-industrial development brings about a shift towards values of self-expression.



The usefulness of dividing the broad subject of “values” in this way can be seen by plotting countries on a chart whose axes are the two spectrums. The chart alongside (click to enlarge it) shows how the countries group: as you would expect, poor countries, with low self-expression and high levels of traditionalism, are at the bottom left, richer Europeans to the top right.

But America's position is odd. On the quality-of-life axis, it is like Europe: a little more “self-expressive” than Catholic countries, such as France and Italy, a little less so than Protestant ones such as Holland or Sweden. This is more than a matter of individual preference. The “quality of life” axis is the one most closely associated with political and economic freedoms. So Mr Bush is right when he claims that Americans and European share common values of democracy and freedom and that these have broad implications because, at root, alliances are built on such common interests.

But now look at America's position on the traditional-secular axis. It is far more traditional than any west European country except Ireland. It is more traditional than any place at all in central or Eastern Europe. America is near the bottom-right corner of the chart, a strange mix of tradition and self-expression.

Americans are the most patriotic people in the survey: 72% say they are very proud of their country (and this bit of the poll was taken before September 2001). That puts America in the same category as India and Turkey. The survey reckons religious attitudes are the single most important component of traditionalism. On that score, Americans are closer to Nigerians and Turks than Germans or Swedes.

Of course, America is hardly monolithic. It is strikingly traditional on average. But, to generalise wildly, that average is made up of two Americas: one that is almost as secular as Europe (and tends to vote Democratic), and one that is more traditionalist than the average (and tends to vote Republican).

But even this makes America more distinctive. Partly because America is divided in this way, its domestic political debate revolves around values to a much greater extent than in Europe. Political affiliation there

is based less on income than on church-going, attitudes to abortion and attitudes to race. In America, even technical matters become moral questions. It is almost impossible to have a debate about gun registration without it becoming an argument about the right to self-defence. In Europe, even moral questions are sometimes treated as technical ones, as happened with stem-cell research.

The difference between the two appears to be widening. Since the first world values survey in 1981, every western country has shifted markedly along the spectrum towards greater self-expression. America is no exception. But on the other spectrum America seems to have become more traditional, rather than less. The change is only a half-step. And Italy, Spain and France have taken the same half-step. But if you look at Europe as a whole, the small movement back towards old-fashioned virtues in big Catholic countries is far outweighed by the stride the other way in post-Protestant countries such as Germany and Sweden. On average, then, the values gap between America and European countries seems to be widening.

Where evil is real

What is the significance of this? If “quality-of-life” values have political implications, helping to underpin democracy, might traditional values help explain differing attitudes to, say, the projection of power?

In principle, two things suggest they might. Patriotism is one of the core traditional values and there is an obvious link between it, military might and popular willingness to sustain large defence budgets. There may also be a link between America's religiosity and its tendency to see foreign policy in moral terms. To Americans, evil exists and can be fought in their lives and in the world. Compared with Europe, this is a different world-view in both senses: different prevailing attitudes, different ways of looking at the world.

If you go back to the Pew and Marshall Fund studies, you can see hard evidence for this difference—and it goes beyond immediate policy concerns. In the Pew study, three-quarters of west Europeans and an even higher share of east Europeans support the American-led war on terrorism—but more than half in both places say America does not take other countries into account (whereas three-quarters of Americans think their government does).

In both studies, Americans and Europeans put the same issues at the top of their concerns—religious and ethnic hatred, international terrorism and the spread of nuclear weapons. In that respect, America and Europe have more in common with each other than with African, Asian and Latin American countries, for whom the spread of AIDS and the gap between rich and poor are at least as important.

But both studies show differences in the balance of European and American anxieties. In the Pew poll, 59% of Americans think the spread of nuclear weapons is the greatest danger to the world. Between 60% and 70% of Europeans put religious and ethnic hatred first. In the Marshall Fund study, around 90% of Americans say international terrorism and Iraq's development of weapons of mass destruction are “critical”. The comparable figures for Europe are around 60%. In short, even if Americans and Europeans see one another in similar terms, they see the world differently.

One might object that such values-based judgments are still not everything. The two sides of the Atlantic have long lived with a related problem: the cultural split between “vigorous, naive” America and “refined, unprincipled” Europe. They have successfully managed that, just as they have coped with the political awkwardness that America's centre of gravity is further to the right than Europe's.

What is different now? Two things. The first is that the values gap may be widening a little, and starting to affect perceptions of foreign-policy interest on which the transatlantic alliance is based. The second is that, in the past, cultural differences have been suppressed by the shared values of American and European elites—and elite opinion is now even more sharply divided than popular opinion. It is the combination of factors that makes the current transatlantic divisions disturbing. And it is little consolation that, in the face of some mutual hostility, the Bush administration is insisting it is all just a matter of politics, and not of something deeper.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Senate Republicans

Allies, not lickspittles

Jan 2nd 2003 | WASHINGTON, DC
From The Economist print edition

Alamy

George Bush cannot rely on the new Republican-controlled Senate to do everything he wants

FOR most of his first two years, the Democrat-run Senate was George Bush's biggest domestic headache. From tax cuts (which they refused to make permanent) to judicial appointments (where they held up the confirmations of conservatives), Senate Democrats used their tiny majority to stall Mr Bush's agenda and push their own priorities.

No longer. As of January 7th, when the 108th Congress convenes, the Senate will be back in Republican hands. Though the majority is slender (51 Republicans, 48 Democrats and one independent), the power-shift is big: the majority party controls everything from the legislative calendar to the chairmanship of committees. From next week, Mr Bush's political allies rather than his antagonists will be in charge. Does that mean a smooth ride for his domestic agenda?

History suggests caution. Not only is the majority razor-thin, but senators are a fiercely independent lot, often reluctant to do their president's bidding. Bill Clinton, for instance, had a rocky ride with a Democrat-controlled Congress between 1992 and 1994, famously failing to persuade lawmakers to pass his ambitious healthcare plan. Nonetheless, Mr Bush has several big advantages. First, many Republican lawmakers are all too aware that they owe their jobs to the president's popularity and his prodigious campaigning before November's election. Equally important, Bill Frist, the Senate's new majority leader (and hence top agenda-setter), is a certified Friend of George.

Mr Frist, a 50-year-old heart-surgeon-turned-senator from Tennessee, emerged victorious from the Republicans' December debacle, when their former leader in the Senate, Trent Lott, was forced to resign for suggesting America might have been better off had racial segregation continued. Elected by acclamation in an unprecedented telephone conference-call on December 23rd, Mr Frist is the party's new star: a telegenic, marathon-running over-achiever, who spends his holidays doing field surgery in the Sudan.

He is also extremely close to the White House. In the 2000 presidential campaign, Mr Frist was the Bush campaign's link to Senate Republicans. Both his style (informal and congenial) and his attitudes (staunch conservatism with no ideological edge) are much like Mr Bush's. He shares the president's domestic priorities, such as making the 2001 tax cut permanent and providing a prescription-drug benefit for old people.

Unfortunately, Mr Frist cannot simply ram these things through. With a majority too small to be filibuster-proof, he will need to work with Democrats, as well as forge compromises between the conservative and moderate wings of his own party. As one of the least seasoned senators to hold the top

job (he has been in the Senate for only eight years), Mr Frist will have to rely on other top Republicans for guidance through the minefield of Senate procedural rules. His relative inexperience is also likely to strengthen the role of powerful committee chairmen.

Control of committee chairmanships is one of the principal means by which the majority party calls the shots in the Senate. For technical reasons, there may be a delay before the new men take over this year. Before he resigned, Mr Lott failed to reach agreement with Senate Democrats over funding and other organisational details of the Senate committee structure. Until a deal is reached, the old committee structure—with Democratic chairmen—remains in force.

They will be dislodged before long, however, and some of the new chairmen will undoubtedly make life easier for Mr Bush. Orrin Hatch, the ideological (though often reasonable) new boss of the Judiciary Committee, will make sure the logjam on judicial appointments is broken quickly. The new head of the Budget Committee, Don Nickles, is another staunch conservative who will push hard for more tax cuts. For the past two decades another Republican, Pete Domenici, was top Republican dog on the Budget Committee. Mr Domenici was more worried about deficits than tax cuts. Mr Nickles, in contrast, is widely seen as someone who regards the budget largely as a vehicle for lower taxes.

Chuck Grassley, the new head of the Finance Committee (the most important tax-writing body in the Senate) is more of a deal-maker than Mr Nickles. Though he will probably push the president's tax-cutting agenda, it will have his own populist touch. Mr Grassley, for instance, is keen on rules to stop American companies avoiding tax by incorporating abroad, a policy the White House is against.

Less obvious is whether the Bush team will be able to convince Republican senators to hold the line on spending. Ted Stevens, the new chairman of the powerful Appropriations Committee, is not known for tight control of the purse-strings. He is one of the Senate's most successful pork barons, extraordinarily adept at snaring federal funds for his home state of Alaska.

With 11 of the 13 spending bills for the current budget year still to pass, spending decisions will be one of the first signs of the White House's clout. Mr Bush has made it clear that he wants discretionary spending kept within an overall $750-billion target. Mr Stevens used to say that that was not enough. Since the November elections he says he wants to stay within the limit, though many Washington budget-watchers reckon there has been a tacit deal with the White House: the Senate sticks to limits now, but gets more money in a fat pork-laden supplemental spending bill later in the year.

Elsewhere, Mr Bush will find more kindred spirits. The Senate's Environment Committee, long chaired by moderates with ties to the environmental lobby, now has an Oklahoma businessman and friend of the oil industry as its boss. James Inhofe is notoriously sceptical of greens, once calling the government's environmental agency a “Gestapo bureaucracy”. John Warner, new top dog at the Armed Services Committee, is keen both on missile defence and invading Iraq.

Other important committee chairmen often disagree with the White House, however, and are not afraid of doing so publicly. With Jesse Helms's retirement, Richard Lugar has become the new top Republican on the Foreign Relations Committee. A Rhodes scholar and noted foreign-policy expert, Mr Lugar is a strong multilateralist who has been sceptical of many aspects of the administration's policy on Iraq. Mr Bush's political nemesis, John McCain, heads the Commerce Committee. Though Mr McCain shares the Bush team's taste for deregulation, he will hardly be a White House lackey and will be determined to push his own schemes.

The unfinished business of the last Congress, and the upheaval of the sudden shift in the Republican leadership, means that it will take a while for the Senate to get going on a new agenda. With Mr Frist in charge, the broad outlines of that agenda may well mirror White House priorities. But with a small majority and a lot of big egos, the surgeon-senator may have trouble keeping it that way.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The evil weed

Snuffed out

Jan 2nd 2003 | NEW YORK
From The Economist print edition

The city that never sleeps may soon be the city that never smokes

AP

Last puffer in Brooklyn

NEW YORKERS whose New Year resolution is to quit smoking have their mayor, Mike Bloomberg, to thank for making it easier. He signed a bill this week that bans smoking in practically all the city's 14,000 bars and restaurants.

Smokers have already had a tough time since Mr Bloomberg came into office last January. During the summer, new city and state taxes pushed up the price of a pack of 20 cigarettes from $6 to $7.50. To the mayor's delight, tax revenue is up sharply. Yet sales have fallen by half, slashed by a thriving black market in cheap smokes. Bootloads are being brought in from nearby Indian reservations and crates more are coming via the internet, from sites such as www.cigarettesexpress.com and www.dirtcheapcig.com ("The Last Refuge of the Persecuted Smoker").

More than taxes, therefore, New York needed a strict anti-smoking law as well. The new law toughens 1995 legislation that banned smoking in all indoor public areas, required special smoking sections in restaurants seating more than 35 customers, and reduced pathetic groups of people to puffing near the windswept entrances to skyscrapers, adding exposure to the risks of their habit.

Surprisingly, the mayor met almost no opposition. The city council approved the new law by 42 to 7. Naturally, bar and restaurant owners protested, with some claiming business would drop by 20%. Also unhappy was Philip Morris, the world's largest tobacco company, which happens to have its headquarters in New York. Civil libertarians grumbled. But there were few protests in front of City Hall and no pleas by fading actors in search of a camera. Even the barkeepers kept their petitions tucked away.

Mr Bloomberg argued that workers, particularly those in restaurants and bars, had to be protected from second-hand smoke. Because there are far more non-smokers than smokers in New York, the public was on his side; but many cigarette-lovers too, ground down by years of sermons, climbed on board. In America, only the very young or the very obtuse consider smoking a sophisticated thing to do.

In their book "Gotham", Mike Wallace and Edwin Burrows note that New York's reformers often energetically purge a vice from one place, only to see it re-emerge elsewhere. Rudy Giuliani, Mr Bloomberg's predecessor (whose obsession was naked breasts, not naked lights), won acclaim for ridding Times Square of peep shows, strip-joints and prostitutes, but no one was particularly surprised when they quickly relocated to Brooklyn and Queens.

A few last-minute concessions in the new law may allow a little leeway in any case. Smoking will be permitted in outdoor cafés and in the city's seven cigar bars (favourite haunts of Mr Giuliani), as well as in any bar that has or builds a special smoking room that employees do not have to enter. It may still be legal to smoke at private, invitation-only events; clever taverns may soon offer these with great frequency. They may even become private clubs. There could be "smoke-easys" too. The fine for flouting the law—$200-$400—is not too steep, and could simply be an added cost of doing business in New York City.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Oregon's budget

More taxes, anyone?

Jan 2nd 2003 | SEATTLE
From The Economist print edition

Some nasty numbers on the west coast

ALMOST every state in America is in a budget bind. Most are required, by their own constitutions, to balance their budgets. But with a weak economy and a battered stockmarket, that is easier said than done.

Oregon is in the worst mess of all. Its two-year budget of $11 billion faces a shortfall of $1.9 billion. When Oregon's state legislature reconvenes and the new Democratic governor, Ted Kulongoski, takes office, both in mid-January, they will face a dismal set of choices.

Particularly hard-hit will be schools, which consume nearly half the state's budget. Until 1990, most education costs were met by property taxes raised within school districts. But a state tax revolt slashed those property taxes in half and handed the job of paying for teachers and books to the capital, Salem. That proved an interesting experiment: wealthy communities found standards lowered, while struggling rural schools suddenly had more money than they had ever dreamed of. Now, however, funds will plunge at every level, from kindergarten to university. Some schools may have to amalgamate; some pupils may start their summer holidays in early May rather than June.

Other state services, too, are urgently seeking ways to save money. The state police force may lay off 20% of its officers and shut down most of the state's crime laboratories. And the Oregon Health Plan, a groundbreaking attempt to rein in the cost of Medicaid (the federal/state health programme for the poor) will probably stop paying for alcohol and drug treatments.

Exacerbating these problems is the parlous condition of the state's Public Employees Retirement System (PERS). For many happy years, PERS guaranteed more than 150,000 state employees an 8% annual rise in their retirement funds. Since 1979 the state had even paid for employees' own contributions to the scheme. But the system invested heavily in the stockmarket, which has dived; and PERS now faces a shortfall of perhaps $9.7 billion. Fire departments, universities and city halls—already straining to cut their budgets—must now struggle too to find extra money to cover workers' pensions.

Fixing all this will not be easy. Oregon relies almost exclusively on income taxes, and receipts have tumbled as unemployment has climbed past 7%, the highest in the country. During the booming 1990s the state could have set aside a tidy sum for this calamity. But state legislators, opting for popularity, chose instead to give money back to taxpayers.

What is the answer? Some politicians are proposing a sales tax, but that looks as likely as a dry January in Portland. State legislators held five special sessions last year, but failed to find a solution all could agree on. Instead, they passed the buck to voters in the form of Measure 28, a proposal for a three-year income-tax rise. It is scheduled for a vote in late January, and the result is not in doubt.

So that leaves the new governor and the legislature to fix things. Bill Lunch, a professor of political science at Oregon State University, believes Mr Kulongoski is well enough regarded by the unions to force a compromise on PERS, perhaps by giving future employees smaller pensions. But since Republicans control the state House, and the Senate is split between the parties, any plan to fix PERS or the budget generally is sure to bog down in bickering.

The outgoing governor, John Kitzhaber, says he plans to go on holiday when he leaves office on January 13th. Many in the capital would doubtless like to join him.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The beef industry

Big brains, no cattle

Jan 2nd 2003 | SHERIDAN, WYOMING
From The Economist print edition

A revolutionary new packing plant had everything, save business sense

THE auction will be held on January 8th in Broomfield, Colorado, a suburb of Denver. The opening bid is $26.7m. The lot? A giant beef-packing plant, now sitting idle in Arkansas City, Kansas, which was once the Great White Hope of America's struggling meat-packing industry.

When it opened, in August 2001, Future Beef Operations (FBO) offered a new way of dealing with meat. The founders included former professors from Colorado State University and Texas A&M; the chief executive was Russell Cross, the former head of the Food Safety Inspection Service in the Department of Agriculture. Though the meat-packing industry has been in the doldrums for years in America, with beef consumption declining, these men keenly believed that the business could be safe, stable, efficient and profitable.

Under the roof of its 450,000 square-foot plant, FBO produced everything a steer or heifer can: tanned hides, pet foods, cooked meats, microbe-free hamburgers, pre-packaged deli products and shelf-ready cuts (thus avoiding inefficient, often unionised, butchers in local markets). The firm had, or believed it had, a cast-iron contract with Safeway Stores, America's third-largest grocer. It promised investors that, by getting the most out of every beast, it could post a profit margin of $266 a head, as opposed to the industry average of $125.

At the centre of this world were progressive cattlemen, rewarded with above-market prices for lean, well-muscled cattle. To ranchers, who had complained of poor prices for decades, this seemed a dream come true. It collapsed in eight months, as FBO ran up debts of $250m with bankers, contractors and beef producers.

First, the cattle market had dropped unexpectedly. FBO, which had purchased cattle in advance at high prices, found itself hammered on cost as cheaper cattle were swept up by competitors. Various health scares—bad bugs, BSE, *E.coli*, foot-and-mouth disease—put a damper on meat sales. The company lost $141 on every animal it processed. Machinery malfunctioned. The price of hides collapsed. Ground-beef operations ran at only 22% of capacity. To crown it all, Safeway, alarmed at the sea of red ink, began withholding payment and reinterpreting the supply contract.

Analysts and cattle-industry insiders blame too many brains and not enough business sense. But FBO's failure is also another sign of an industry experiencing brutal consolidation. According to Steve Kay, a cattle analyst, the top five beef companies (Tyson, Excel, Swift, Farmland and Smithfield) control 89% of America's steer and heifer slaughter. Even so, in a good year, profit margins rarely clear 2%. As Mr Kay says, “you have to be a little obsessed” to go into the industry at all. All the odder, then, that no fewer than four parties are showing interest in the plant in Kansas.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

All the president's fault?

Jan 2nd 2003
From The Economist print edition

North Korea and Iraq dramatise the dangers of America's reckless new foreign policy. Discuss

WHEN George Bush came to power, North Korea and Iraq looked like modest success stories for the doctrine of containment. They were rogue states kept more or less in their cages by a combination of international compact, sanctions and targeted bribes for better behaviour. The bars were bent a bit in places, to be sure. But as Colin Powell suggested at the time, negotiations could probably straighten things up and keep the mad dogs in check a while longer—or even, with luck, tempt them into becoming more tractable, biddable beasts.

Now, at the start of 2003, America is on the verge of war with Iraq and faces a diplomatic showdown with a nuclear-armed North Korea. How on earth did containment turn into a crisis involving the world's two maddest regimes (some would say, three maddest regimes) in just a couple of years?

For many in Europe, the answer is obvious. Mr Bush's reckless penchant for throwing America's weight around is to blame. Mr Bush first absurdly lumped together poverty-stricken, nuclear North Korea with richer, not-yet-nuclear Iraq in the “axis of evil”, a diplomatically inept slogan that poisoned relations with the North Koreans (as well as with Iran).

In Iraq, Mr Bush started calling for regime change and massed troops to overthrow Saddam Hussein without providing any evidence for America's assertion that Iraq is building more weapons of mass destruction. This also distracted America from the more urgent problem of hunting al-Qaeda.

In North Korea, Mr Bush stands accused of betraying the spirit of a 1994 “agreed framework” by refusing to talk to the Koreans and then cutting off fuel shipments that America was obliged to send under the deal—thus tearing up the treaty under which North Korea had agreed to stop its nuclear-weapons programme in exchange for economic assistance.

And, to top it all off, Mr Bush's scary new doctrine of pre-emptive strikes has come back to haunt him. The North Koreans now justify their resumption of a nuclear-weapons programme on the grounds that they need every defence they can muster against possible American pre-emption. What's sauce for the goose is sauce for the gander.

This account of events comes in different grades. This is the industrial-strength version, widely sold in

Europe. It argues that everything was America's fault from the start. But even the milder, domestic-strength version, for American consumption, is damning enough. It says that America failed to understand the subtleties of dealing with rogue regimes and fumbled the requirement to work with neighbours and allies. So what can be said in America's defence?

First, North Korea and Iraq are examples of the limits of treaties, not of misused American power. During the 1990s, the world sought to cope with both countries through international deals—in North Korea, through the “agreed framework”. Kim Jong Il ignored that treaty, secretly resuming the nuclear-weapons programme he had promised to forgo. It was this, not America's suspension of fuel supplies, that killed the agreement.

In Iraq, the international deal was struck through the United Nations Security Council. The weapons inspectors who operated under the council's resolutions did a lot. But when Saddam disbarred them in 1998, the Security Council failed to react. In the past four years of unconstraint, Iraq's dictator may or may not have gone far towards his old goal of building a nuke. But he has certainly acquired new weapons, including possibly unmanned drone aircraft.

International co-operation was broken with impunity in both places. It is an obvious point, but one worth making: signing a treaty is not the end of a matter. It still has to be enforced.

Second, despite this unhappy history, the Bush administration is still not dealing with either North Korea or Iraq like a bull in a china shop. The administration kept quiet about North Korea's secret and illegal nuclear programme for weeks after it found out about it—hardly evidence of recklessness. Now, Mr Bush has sought help from North Korea's neighbours and moderated his get-tough instincts in response to their misgivings. Last September, he turned decisively to the UN over Iraq.

Indeed, it is striking how little Mr Bush has applied what Europeans say is a “one-size-fits-all” policy in the two cases. He has ruled out military force in Korea, but uses the threat of it to spur diplomatic action over Iraq. This reflects an underlying fact, of course: North Korea has nuclear weapons, while Iraq may only be seeking them. But this, if anything, justifies—or at least explains—his threat of force against Iraq. North Korea suggests that if America waits until Saddam gets a nuke, it could be too late.

The other dual threat

Third, the European criticism underestimates the sheer uncertainty of global threats after the World Trade Centre attacks. If the threat came from al-Qaeda alone, that would at least be conceptually simple, however hard to deal with in practice. But the real problem is the intersection of global terrorism with weapons of mass destruction. That dual threat means America cannot simply—as its critics demand—concentrate on al-Qaeda now and deal with proliferators like Iraq and North Korea later.

The real history of the past two years does not show America recklessly throwing its weight around. Rather, it shows a country stumbling towards a policy that deals with both halves of the post-September 11th threat at once.

Criticism of the administration is warranted not for what it is trying to do, but for the way it has sometimes gone about it: refusing to talk to the North Koreans, for example, then talking, then cutting off negotiations and now (maybe) talking again. But that is as much a product of uncertainties in the real world as it is of arrogance, or incompetence, in the White House.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil's presidency

Lula's burden of hope

Jan 2nd 2003 | SãO PAULO
From The Economist print edition

AP

The new president faces a difficult Congress, wary investors and popular hunger for change

Get article background

"HOPE" and "history" are two words Brazilians often use in talking of their new president, Luiz Inácio Lula da Silva, who took office on January 1st. He has already made history by becoming the first left-winger to be elected to the office, by a landslide in October; it is a sign of how much Brazil's democracy has matured that nobody is surprised that not a peep has come from the armed forces, who ruled from 1964 to 1985. The hope is that Lula, as he is universally known, who was born poor and came to politics via the factory floor and the picket line, will restore Brazil's economic fortunes in a way that lifts up the poorest in a notoriously unequal society. In an emotional inauguration that drew 100,000 supporters to Brasilia, Lula promised to wage war on hunger and unemployment without upsetting Brazil's fragile finances. Now, after a smooth handover of power by Fernando Henrique Cardoso, the president for the past eight years, he must start to live up to this heavy burden of expectations.

He takes charge of a country in financial peril. Brazil's debts frighten its creditors: net public debt is nearly 60% of GDP, some $250 billion, and net foreign debt, both public and private, is $165 billion. Over the past year, fears of default, stoked by Argentina's insolvency and the past radicalism of Lula and his Workers' Party (PT), helped push up interest rates and the value of the dollar, to which much of Brazil's local-currency debt is linked. At the same time, inflation has edged into double digits for the first time since 1995.

Everything argues for tough monetary and fiscal policies—except Lula's campaign promises and the hopes of Brazilians for a return to rapid economic growth and poverty reduction. But the president's best chance of success these lies in using his mandate and the gravity of Brazil's plight to push through unpopular reforms.

Since the final weeks of the election campaign, Lula has worked hard to turn investor panic into mere wariness. He has stressed that Brazil means to pay its debt, and has chosen ministers who seem ready to carry that promise through. Antônio Palocci, the finance minister, is a pragmatic former PT mayor who has committed himself to responsible policies. Some of his ideas are likely to come from Marcos Lisboa, the economic-policy secretary and co-author of "Lost Agenda", a recent paper that advocated microeconomic reforms, such as trimming the role of Brazil's overgrown labour courts. Henrique Meirelles, the new central bank president and an experienced commercial banker, is likely to retain many of the advisers of his predecessor, Arminio Fraga.

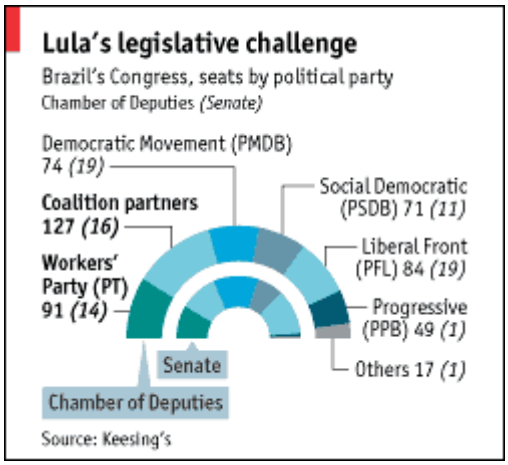
Markets have responded to these signals. Since October the *real*, Brazil's currency, has rallied from nearly 4 to the dollar to 3.5, while the risk premium on the country's bonds has dropped from a peak of 25 percentage points over those of the United States' Treasury to 14. But that premium must fall further if Brazil is to be able to honour its debts in the medium term.

A test of confidence will come in February, when the IMF will review its $30 billion loan to Brazil. Investors expect a more ambitious fiscal target, raising the planned primary budget surplus (before interest payments) from 3.75% of GDP to 4.5% or so. In the short run, higher inflation makes this easier (by cutting the real value of government spending).

The new government seems likely to adopt a pragmatic stance on trade policy, despite the PT's traditional support for protectionism. The foreign minister, Celso Amorim, a career diplomat, is a former ambassador to the World Trade Organisation. The industry and trade minister, Luiz Fernando Furlan, head of a big meat producer, comes from an industry that has more to gain than to fear from freer trade. Their approach to the talks on the Free-Trade Area of the Americas is likely to be assertive but not hostile. If the government deviates from its predecessor's orthodoxy, it will be in areas such as industrial policy, where some of Lula's appointees are keen on activism.

Brazil's prospects turn on whether Lula can turn these pragmatic intentions into policy achievements. He will face (when it convenes next month) not just a Congress in which he lacks a majority, but pressures from friend and foe alike. Having accommodated many independents in economic posts, he has given the other cabinet jobs to his party and its seven coalition partners, an assortment of small leftist and populist outfits. That meant spurning, for now at least, the centrist Party of the Democratic Movement (PMDB), whose inclusion would have given him a legislative majority (see chart).

Another worry is Lula's own party. The president and José Dirceu, his chief of staff and political enforcer, both belong to the PT's dominant moderate wing. But about a third of the party and its legislators cleave to vociferous radical factions that dream of socialism and recoil from any pandering to financial markets. For now, they are in check: the PT told one of its senators who objected to Mr Meirelles to stay away from his confirmation hearing.



Then there are Brazil's powerful but cash-strapped governors and mayors. The biggest threat to fiscal discipline, argues Rodrigo Azevedo of CSFB, an investment bank, is that the states will try to renegotiate their debts, breaching a fiscal-responsibility law that restrains their deficits.

Stressing the social

Mr Palocci seems intent on pushing a lot through quickly, including a Tony Blair-style freeing of the central bank from political control, a trimming of civil servants' absurdly generous pensions and reforming a complex system of state value-added taxes. Optimists argue that these reforms, long pressed by Mr Cardoso (and opposed by the PT), will now pass by consensus. The PMDB has said that it will back reforms that are "best for Brazilian society". But the government will have to haggle for every victory in a Congress with an insatiable hunger for pork.

Brazilian presidents normally enjoy a six-month honeymoon. Lula will hope that his sweeping electoral mandate will buy a longer indulgence from voters and PT radicals alike. He will try to ensure this by using the word "social" at every opportunity. He has created a "social assistance" ministry and named a secretary of "economic and social development".

This risks a proliferating "social bureaucracy". If the social offensive is to have substance, it may come from *Fome Zero* (zero hunger), a planned partnership of government, firms, charities and pressure groups to improve the welfare of the poor. Its boosters tout this alliance, which will try to do a lot with little extra public money, as a new model. Or you could call it "compassionate conservatism".

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Venezuela's general strike

Pyrrhus of Caracas

Jan 2nd 2003 | CARACAS
From The Economist print edition

President Chávez is clinging on—but at a terrible cost to his country

Get article background

EVER since he took office as Venezuela's president in February 1999, Hugo Chávez has been trying to bring the powerful state-owned oil company, Petróleos de Venezuela (PDVSA), under the control of his “Bolivarian revolution”, a mishmash of populist nationalism. He argues that the firm is a state within a state. Four years, five PDVSA chairmen and three strikes later, he claims to be on the point of achieving his goal. If so, that may ensure his own survival in power for a while longer—but at a staggering cost to Venezuela.

As the year began, the country's all-important oil industry remained largely shut down by a month-old stoppage, part of a combined business-labour general strike aimed at forcing Mr Chávez to resign or call an election. But the government claims to be breaking the strike where it matters most, in PDVSA. Rafael Ramírez, the energy minister, says that those who are still on strike at the company are management “saboteurs”, most of whom “are not needed” for the streamlined PDVSA the government has in mind. In other words, it is trying to turn the strike into a lock-out.

If it succeeds, that would be a huge setback for the broad but fractious opposition coalition. The opposition argues that Mr Chávez has undermined democracy; it has been seeking to oust him for much of the past year. With the armed forces under tighter government control following the purge of senior officers involved in last April's abortive coup, the PDVSA strike was their best hope of loosening the president's grip on power. If his “revolution” does consolidate its hold over the company, Mr Chávez will face little apparent constraint on his rule.

President turned strikebreaker

It is because each side has come to see defeat as almost final that there is still no sign of compromise. The opposition is united in arguing that it is unthinkable to abandon the PDVSA strikers to defeat. The opposition umbrella group, the Democratic Co-ordinator, insists that their reinstatement must be part of any settlement. The strikers seem equally determined to stick it out. “They don't have an exit strategy. We're kind of painted into a corner, but they are the only guys we've got,” said the owner of a mid-sized business, referring to the opposition's leaders.

The government argues that the opposition comprises both a “democratic” segment and those who seek a coup. But it has offered the “democrats” nothing. In six weeks of talks chaired by César Gaviria, the secretary-general of the Organisation of American States, the government's position has not varied: the only electoral option is for Mr Chávez to be subjected to a recall referendum in August, once he has completed half his term.

By coupling its demand for a swifter, consultative, referendum with a general strike, the opposition appears in hindsight to have fallen into the government's trap. But nobody thought that Mr Chávez could withstand a month-long strike by the oil industry, which provides 80% of Venezuela's export income and half of government revenue. The strike has cut oil exports to less than a tenth of their normal level. Mr Ramírez admits that PDVSA has lost around $2 billion. Petrol and cooking gas have almost run out, with queues at filling stations measured in days, not hours, in some places. On the black market, petrol sells at more than 15 times its regular, subsidised price. A market has even sprung up for places in queues.

Yet still the government refuses to bend. It has begun to import petrol at market prices, of which it recoups less than a fifth, and is trying to restart shut-down refineries.

Many in the opposition believed that the armed forces would step in before things reached this stage. They thought Mr Chávez, a former army officer, would resort to violence, or decree a state of emergency, and that this would prompt the army to withdraw its support, as happened in April. But so far, violence has been minimal and the army has remained loyal. The biggest miscalculation was that Mr Chávez would negotiate before the strike's cost became too great. Instead, he seems determined to cling to power, even if that means ruling a ruined economy.

Whatever the outcome, 2003 promises to be the worst year in the memory of most Venezuelans. Government revenue all but dried up in December. In 2002, the government raided the central bank's reserves to finance itself; this year, it will almost certainly have to print much more money, sending inflation soaring. The strike will leave a rash of bankruptcies in industry and commerce, pushing unemployment well over its current level of perhaps 20%. The opposition believes the country is ungovernable in these circumstances. Mr Chávez clearly thinks otherwise.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Cuba and the United States

The Americans have come

Jan 2nd 2003 | HAVANA
From The Economist print edition

Embargo or not, the United States is now Fidel Castro's economic partner

MANY Cubans dubbed 2002 “The Year of the Americans”, and for good reason. Although in theory the United States maintains its embargo against Fidel Castro's communist government with as much fervour as when it was first introduced in 1960, in practice contacts are growing fast. Since 2000, American companies have been allowed to sell food to Cuba, but only for cash. In 2002, they shipped food worth around $165m, helping to turn the United States into Cuba's tenth-biggest trading partner, according to unofficial estimates.

Along with the food shipments have come politicians and businessmen eager to talk to *el comandante*. Mr Castro joked to one of dozens of congressmen he has wined and dined that he had no complaints about spending more time with Americans than with other foreigners—except that he was tired of signing baseballs.

Ordinary Cubans rave about the long-forbidden fruit arriving on their tables. Juicy and crisp American apples are hawked on street corners. Meaty American chickens are rationed at neighbourhood stores. American rice is said to be fluffier than the Vietnamese or Chinese varieties Cubans have grown used to. Even such icons of imperialism as chewing gum and peanut butter are now on sale.

EPA

Imperialist burgers win a new consumer

Then there are the tourists. The Clinton administration eased the ban on travel to the island, to allow visits by professional people and the 1m Cuban-Americans. Now, there are 26 flights a week between the United States and Cuba. In all, around 200,000 Americans came in 2001—more than from any other country except Canada. Three-fifths of the visitors were Cuban-Americans, but 50,000 were tourists who travelled via third countries, with or without their government's approval.

The United States also provides Cuba with money in two other ways. Remittances from Cuban-Americans now total perhaps $800m a year. And there is increasing indirect American investment in the island: many of the multinationals from Europe and Canada that have set up operations in Cuba since Mr Castro's opening to foreign investment a decade ago count American institutions among their shareholders.

This budding relationship is prompting jealousy from businessmen and diplomats from countries in Europe and Latin America that have never placed restrictions on trade with Cuba. They are irritated that Mr Castro pays so much attention to his old enemy, and cash for its food, when they often cannot get an audience and are paid late, if at all, for their products, despite offering credit. They grumble, too, that while Washington threatens sanctions against others who do business with Cuba, the United States is dumping subsidised food on the island. Each week sees another American ship dock at a Cuban port; any foreign ship that does the same is banned from entering an American port for six months.

Despite all the insults still hurled across the Florida straits, “the embargo is becoming a sieve”, says a European diplomat. All the more reason to scrap it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Chile's economy

Going it alone

Jan 2nd 2003 | SANTIAGO
From The Economist print edition

Can Chile's new trade agreements revive its flagging economic growth?

Get article background

WITH just 15m people at the flank of South America, Chile has for two decades used trade as the motor to make its economy grow. General Pinochet introduced unilateral tariff cuts, and the democratic governments of the centre-left that followed have continued the policy. But the motor is sputtering. After growing at an annual average rate of over 7% between 1986 and 1997, the economy has since performed sluggishly. GDP is set to grow by only around 2% this year, and by 3.5% next year, according to a forecast by J.P. Morgan Chase, an American bank.

So Chile's government has high hopes for three bilateral trade deals it clinched in 2002, with the European Union, South Korea—and, on December 11th, 12 years after it was first mooted, with the United States. The government claims that these could add one percentage point to GDP growth. Felipe Larraín, an economist at Santiago's Catholic University, reckons that the main effect could be to boost foreign direct investment by up to $1.3 billion a year if Chile uses its tariff preferences to turn itself into a platform for the export of manufactures and services to its neighbours. But others are more cautious.

Officials claim that the mere existence of the trade deals marks Chile out from its troubled neighbours. Brazil and Argentina, locked in slow-moving talks with both the EU and the United States for a wider Free-Trade Area for the Americas (FTAA), might indeed be envious. But did Chile get a good deal from the United States?

The Bush administration made concessions on capital controls, argues Nicolás Eyzaguirre, Chile's finance minister. To protect itself from financial volatility, until 1998 Chile retained a reserve requirement on short-term capital inflows. The government refused American demands to rule out the use of such measures in the future. Instead, the agreement permits controls for up to a year (longer in practice, says Mr Eyzaguirre) if these do not “substantially impede” financial transfers.

American officials portray the agreement with Chile as an important step towards the FTAA. Brazil and Argentina, both big agricultural exporters, will note that Chile achieved no concessions on farm subsidies, nor on America's irksome anti-dumping laws. Chile may have done well by going it alone. But being a “good house in a bad neighbourhood”, as an official puts it, is still uncomfortable.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Correction: Bechtel

Jan 2nd 2003
From The Economist print edition

In an article on December 14th ("Troubled waters") we said that Bechtel, a construction firm, wants $25m compensation from the government of Bolivia for the cancellation of a water-management concession. Bechtel points out that compensation is being sought by a wider consortium in which it holds a minority stake, and which has yet to put a figure on its claim.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

North Korea's nuclear weapons

Closing Pandora's box

Jan 2nd 2003 | BEIJING AND WASHINGTON, DC
From The Economist print edition

EPA

Is America's insouciance just a front?

Get article background

CRISIS, what crisis? That, more or less, has been the carefully projected reaction of Colin Powell, America's secretary of state, to North Korea's decision to restart its nuclear power plant (for which, read bomb-factory) at Yongbyon, and throw out United Nations' inspectors.

America has a strong incentive to sound calm, since North Korea has in the past used self-generated crises as negotiating ploys to extort aid, food, fuel or diplomatic concessions, and may well be doing so again. Still, there is plenty to worry about. The two inspectors from the UN's International Atomic Energy Agency (IAEA) flew out of North Korea on Tuesday, bringing to a halt outside monitoring of the Yongbyon facilities, which are capable of producing weapons-grade plutonium. The same day, North Korea's ambassador to Russia said his country could no longer fulfil the terms of the nuclear Non-Proliferation Treaty (NPT), which commits it not to develop nuclear weapons.

Further escalation seems probable. The IAEA will meet on January 6th to discuss North Korea's nuclear programme and will probably refer the issue to the UN Security Council. Any rebuke by the UN could trigger further North Korean paroxysms. North Korea could formally withdraw from the NPT, for a start. Worse could easily follow. So far, at least, North Korea has stuck to its 1999 moratorium on long-range missile testing. But “there is no reason why the North Koreans should continue to observe that if all of the other elements of their bilateral arrangements with the United States have collapsed,” says Gary Samore of the International Institute for Strategic Studies in London, who was a National Security Council director for non-proliferation under President Clinton.

Mr Powell did at least concede that there was “a serious problem”. That is an understatement. North Korea may well already have a couple of nuclear warheads, built from material squirreled away a decade ago. By reprocessing more plutonium from its stock of spent fuel rods at the Yongbyon reactor, it could, according to the Americans, make a further half-dozen warheads in 2003, and perhaps a dozen by 2005. It also has short and medium-range ballistic missiles—though it is unclear whether its nuclear warheads are small enough to fit on them—and a track record of exporting weapons and technology.

Reuters

What does Kim want?

By eschewing talk of “crisis”, Mr Powell may intend to assuage public opinion in South Korea. Many people there blame the United States for provoking North Korea by failing to give support to the South's efforts to coax the North out of its isolation by providing aid and encouraging high-level dialogue. He also may not want to distract attention from what President Bush regards as the more pressing issue at hand, namely dealing with Iraq.

Mr Powell's insouciance is probably also designed to distract attention from America's lack of real options. America does not want to confront North Korea militarily. It appears not to want even to threaten to do so, as it did during the last flare-up of this kind in 1993-94, when the then defence secretary, William Perry, hinted at the possibility of bombing North Korea's nuclear facilities.

In the end, America defused the last crisis by reaching an accord with North Korea: the “framework agreement” of October 1994. It seems that the bombing option was considered far too risky. American officials worried that a strike against the facility would risk setting a radioactive cloud adrift over South Korea. They were even more concerned that an attack could prompt a military response from the North, the majority of whose 1m-plus troops are deployed within 100km (60 miles) of the demilitarised zone (DMZ) that divides the peninsula. The North has thousands of artillery weapons and multiple rocket launchers that could wreak extensive damage on Seoul, only 40km south of the DMZ. Some of its warheads are chemically armed, and it may also have biological weapons. Even if it does not yet have deliverable nuclear weapons, North Korea could inflict heavy losses on the South at a moment's notice.

Though Mr Perry warned in 1994 of “devastating consequences” for North Korea if it were to retaliate, the Americans thought it best not to rely on North Korea's good judgment. Bill Clinton—then not yet halfway through his first term as president—praised the framework agreement as “a good deal” for the United States, even though events of the last few weeks have shown that the agreement was at best a stop-gap solution.

The agreement required North Korea to freeze operation of its five-megawatt reactor and plutonium-reprocessing plant at Yongbyon and stop building a 50-megawatt reactor at the site, plus a 200-megawatt plant at Taechon (both about five years away from completion). In return, the United States and its allies would build two light-water reactors in North Korea, from which it would be far more difficult to extract weapons-grade material. While construction of these reactors was under way—the first concrete was poured only last year—America was to help provide 500,000 tonnes annually of heavy fuel oil to compensate North Korea for its lost energy production.

It was relatively straightforward for UN monitors to verify North Korean compliance with this deal. But it was far harder to assess whether it might be secretly pursuing its nuclear-weapons programme by other means. In the late 1990s, it is now known, North Korea began a covert effort to produce enriched uranium. It was its admission to this, when challenged during a visit to Pyongyang in October by President Bush's senior official responsible for East Asia, James Kelly, that started the current imbroglio.

America's defence secretary, Donald Rumsfeld, said last week that America would be able to fight and win two regional wars at once (in Iraq and Korea). But there is no evidence that hawks in the administration are spoiling for a fight in Korea. Mr Powell appears to have ruled war out, for now, and Condoleezza Rice, the national security adviser, argues that dirt-poor, isolated but nuclear-armed North Korea presents entirely different policy problems from richer, not-yet-nuclear Iraq.

No jaw-jaw either

But if America is unwilling to fight, it is also unwilling to negotiate. In 2001, President Bush criticised South Korea's “sunshine policy” of engagement with the North. Mr Powell later coaxed the president out of his reluctance to talk to the North Koreans at all, but said that for better relations the North would have to cut its conventional forces, make nuclear inspections more transparent and stop selling its missiles to other countries.

Since then, the administration argues, matters have got worse again, giving the Americans even less reason to talk. Given recent developments, entering into negotiations would merely reward bad behaviour and encourage the regime of Kim Jong Il to further acts of brinkmanship. Instead, the administration is groping towards a policy it calls “tailored containment”. This includes economic pressure, threats to intercept weapons shipments from North Korea (a key source of income for Mr Kim) and efforts to push North Korea's neighbours—South Korea, China, Russia and Japan—into making clear their displeasure with North Korea's actions.

There are two problems with this policy. First, North Korea's neighbours have deep reservations about it. In a rare public criticism of America, South Korea's outgoing president, Kim Dae-jung, said this week that “pressure and isolation have never been successful with communist countries.” Russia, which sells arms to North Korea, said the policy would backfire. According to its foreign minister, “attempts to isolate North Korea can only lead to a new escalation in tension.”

As usual, China has avoided any public criticism of North Korea, its traditional ally. “China views sanctions as wrong and believes they would not work,” says Shen Dingli of Shanghai's Fudan University. Japanese officials worry that tough measures could jeopardise their country's efforts to persuade North Korea to hand over the family members of Japanese citizens abducted by North Korean agents more than 20 years ago. America now denies that it is considering economic sanctions.

Second, it is not clear what the aim of tailored containment actually is—let alone how it will be achieved by refusing to talk or trade with a regime that is largely isolated anyway. In the short term, America wants it to abandon its nuclear-arms programme. But by giving up on the 1994 agreement, America leaves North Korea in control of previously frozen plutonium and free to make more.

Robert Einhorn of the Centre for Strategic and International Studies in Washington, a top State Department negotiator with North Korea under President Clinton, argues that containment cannot work as a long-term policy. He says this would have the effect of “tolerating North Korea's accumulation of substantial nuclear capability”. With the one or two nuclear bombs that North Korea may already have, he argues, it has a “revenge capability”. With the half-dozen it might quickly acquire, “you have the beginning of a military strategy for their use” as well as possibly enough plutonium to sell abroad—along,

perhaps, with long-range missiles.

Few believe that North Korea is actively planning any military aggression. Cavalier though the North's actions appear, its decisions to revive its mothballed nuclear programme and work on enriching uranium were probably in part due to a sense of frustration with the lack of any breakthrough in its ties with America. The promised two nuclear reactors are at least five years behind schedule. North Korea blames America for this, while America blames North Korean obstruction. The key reactor components cannot anyway be delivered until the IAEA has certified that North Korea has no unaccounted-for fissionable material: the inspections alone will take perhaps three years.

Still, the North's hopes for better ties with America were not unreasonable. The 1994 agreement says that the two countries will “move toward full normalisation of political and economic relations”. As an initial step, the pact calls for liaison offices to be opened in each other's capitals. That has not happened (both sides blame each other), though other western countries have established full diplomatic relations with North Korea. Though nuclear brinkmanship is not an effective way of winning support in Washington, North Korea learned from the 1993-94 crisis that it is a good way of grabbing attention.

So it seems likely that tailored containment may be merely a way of gaining time for the real policy to come. It is hard to say what this might be. But the elements of a bargain exist. America has already demanded that North Korea end its nuclear programmes, let inspectors check uranium-enrichment sites, stop testing and exporting missiles, make deep cuts in its conventional forces and allow Japanese citizens it has kidnapped to return home. In exchange, North Korea would get recognition, and substantial aid.

Such a deal seems a distant prospect at a time when Kim Jong Il appears more determined than ever to look dangerous. And agreeing to conventional arms reductions would be hard for Mr Kim if he had already agreed to give up his other main sources of leverage—nuclear weapons and long-range missiles. President Bush would find it embarrassing, having forsworn negotiations under nuclear pressure, to send a senior intermediary in the way that Ex-President Jimmy Carter helped persuade a seemingly intransigent North Korea to offer a nuclear deal in 1994. But as President Bush said on December 31st, this is “a diplomatic showdown”, not a “military showdown”. Diplomatic showdowns sometimes lead to grand bargains.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

South Korea's new president

Sorry, no time for a honeymoon

Jan 2nd 2003 | SEOUL
From The Economist print edition

Roh Moo-hyun already has problems

Get article background

INCOMING political leaders can normally look forward to a honeymoon period when they first take up their posts. But the odds of that happening in the first few months of Roh Moo-hyun's time in office seem increasingly unlikely.

Mr Roh, a former human-rights lawyer and the presidential candidate of the ruling Millennium Democratic Party, narrowly beat his main rival, Lee Hoi-chang, of the conservative Grand National Party, on December 19th. His victory was largely due to the support of South Korea's younger, post-cold-war generation.

Many see his win as a historic moment, marking the transfer of power from South Korea's older political leaders to one who is relatively young. Mr Roh is 56. He is not a member of the political elite, never went to university and has spent little time abroad. In his election campaign he promised to end corruption and to work towards ending the regional rivalries that have divided the country.

But foreign-policy issues are likely to take precedence when Mr Roh takes over the presidency in February, when Kim Dae-jung steps down. Over the past few weeks North Korea's nuclear ambitions have become a headache both for South Korea and for the United States. In line with President Kim's views, Mr Roh has argued for a policy of conciliation with the North. In his campaign he criticised America's tough line with the North: of isolating it, and of refusing it much-needed aid until it came to heel.

AP

Roh's testing new year

There had been fears that Mr Roh's comments could put him on a collision course with the Americans. But following the North's decision to reactivate its mothballed nuclear reactor at Yongbyon and expel the United Nations' nuclear inspectors, he has taken a less accommodating view of the North. He says that the North's refusal to heed international calls for it to dismantle its nuclear programme could make it difficult for him to continue to pursue the “sunshine” policy of Mr Kim.

Mr Roh has also urged anti-American demonstrators to tone down their activities. Widespread protests followed the deaths of two South Korean schoolgirls who were run over by an American military vehicle during a training exercise in June. The protests worsened when the two soldiers in charge of the vehicle were acquitted of blame in an American military court. “Give me time,” he urged those calling for revisions to the legal code governing the status of 37,000 American troops stationed in South Korea. Nevertheless, this week thousands of protesters in Seoul saw in the new year with a rally against the American presence.

Mr Roh has also been talking in more diplomatic terms about improving Seoul's relations with America. They need to mature and advance, he says. He plans to visit Washington soon after his inauguration.

The Americans congratulated Mr Roh on his election win. But, privately, American officials were worried. “It's a big headache for Washington,” said one political analyst, noting the policy differences over North Korea. In what could be the one blessing from the North's obduracy on the nuclear issue, the president-

elect is moving on to a path more in line with the Americans', though there are already differences over whether or not the North should be economically isolated.

In other areas, too, Mr Roh appears to have taken steps to assure South Koreans who may not have voted for him that he is not the dangerous radical portrayed by his opponents. He says that stability will guide his choice in forming a cabinet. He will appoint a prime minister capable of bridging some of the regional and generational divides highlighted during the election campaign, and of working with the opposition Grand National Party, which has a majority in the National Assembly.

On the economic front, Mr Roh, who is seen as labour-friendly, says he favours a fairer distribution of wealth. His victory could mean big changes for the country's large family-run industrial conglomerates, or *chaebol*, whose unchecked over-expansion led to a slump five years ago. But turning words into deeds will not be easy. Unless there is a political shake-up—always a possibility in South Korea—Mr Roh will be the new standard-bearer of a party in a political minority, at least until the next general election in 2004. The president-elect can reasonably expect support in parliament for a sensible foreign policy. But he may have a tough time taking on the *chaebol*, along with other planned reforms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Philippines

Sic transit Gloria

Jan 2nd 2003 | MANILA
From The Economist print edition

President Arroyo to bow out

THE Philippines' political agenda for the next 18 months has been torn up by President Gloria Arroyo's announcement that she will not stand for re-election in mid-2004. Mrs Arroyo said that if she were to seek re-election it would exacerbate deep political and social divisions. Instead, the 54-year-old American-trained economist said she would concentrate on reinvigorating the sluggish economy.

AP

Mrs Arroyo's decision was surprising, because the common assumption in Manila had been that she would run for a new, six-year term to complete a programme of reform that she has talked about but done little to put into action. Supporters and opponents alike were hard-pressed to explain her decision. Although recent opinion polls suggested she would lose the next presidential election, none of the potential candidates has declared outright that he will stand, and none appears yet to have mustered the combination of popular and financial support that would make him an easy winner. In contrast, Mrs Arroyo, as the incumbent president, had every chance of overcoming her current unpopularity and, had she wished, going on to win her new term.

Some political pundits suggested that Mrs Arroyo did not jump, but was pushed. Their theory is that she has lost the confidence of her main supporters: the armed forces, and her Lakas party, the only cohesive political group in a country where parties are formed and dissolved like soap bubbles. However, there is no obvious alternative candidate who would both serve the interests of Lakas and the armed forces, and stand a chance of winning.

Another theory is that the president's decision is a trick, and that she will change her mind and announce her candidacy some time in the coming year. The purpose would be to outflank the opposition, which has accused her of concentrating on getting re-elected rather than solving problems such as a budget deficit that is out of control, corruption, crime and terrorism.

But it is also possible that Mrs Arroyo means what she says. Although the political and social divisions she mentioned appear no worse than usual, she might be sincere in her aim of avoiding the customary political ructions of a presidential election, so she can concentrate on solving the more urgent economic problems and give her successor an easier start. The trouble is that the politicians whose help she needs to solve these problems will be distracted by the need to establish their place in the post-Arroyo administration. She is now likely to become a lame duck.

Mrs Arroyo took office two years ago because she was vice-president to Joseph Estrada, who was deposed by a popular uprising after being accused of corruption. Perhaps her plan is simply to ensure that she goes down in history as a conscientious accidental president, who succeeded in establishing political stability after the uprising, and who managed to limit the damage done to the economy under Mr Estrada, before gracefully handing over to a democratically elected successor.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

China

Mr Bush's Chinese Christmas present

Jan 2nd 2003 | BEIJING
From The Economist print edition

The release of a prominent dissident does not presage more dissent

CHINA, though officially atheist, has a soft spot for Christmas—as last week's packed churches and stores bedecked with yuletide decorations testified. This year, the government even decided to give President Bush a present by releasing from prison the dean of the country's dissident community, Xu Wenli, and sending him off to America.

As usual when freeing dissidents before their terms are up, China presented Mr Xu's release on Christmas Eve as necessitated by the prisoner's need for medical attention outside jail. Mr Xu, who is 59, says he does indeed suffer from hepatitis. But instead of having him treated in China, the authorities handed him over to an American diplomat who escorted him by plane to Chicago. China's practice is to grant medical parole to dissidents on condition that they go abroad, where they are less able to stir up political trouble at home and are often swallowed up by the squabbles of the exile community. They are then barred from returning.

Despite having been spared the remaining nine years of a 13-year sentence for endangering state security, Mr Xu, who has spent 16 of the last 21 years behind bars, is unimpressed by China's gesture. He says more than 40 fellow activists of the China Democracy Party he helped to found in 1998 remain in prison and notes that despite his own release, several less well known dissidents have been rounded up recently. “They keep on playing this game,” he says. “But I don't think there's been any fundamental change in the human-rights situation in China.” Mr Xu describes himself as merely a “bargaining chip” in the America-China relationship.

China is clearly pleased that this relationship has now steered away from the human-rights preoccupations of some members of Mr Bush's Republican Party who regard China in much the same way that America once viewed the Soviet Union. Mr Bush's focus on international-security problems and his desire to secure China's help in dealing with them has pushed concerns about China's human-rights record down his list of priorities. Ironically, this has enabled China to relax somewhat. Mr Xu's release came less than a week after America's top official responsible for human rights made a renewed appeal for the dissident's freedom.

Dissident releases are good indicators of the overall state of Sino-American relations. Mr Xu is the most prominent dissident to be sent into exile since the freeing of Wei Jingsheng in 1997. Mr Wei's release followed just a few days after President Jiang Zemin paid the first state visit to America by a Chinese leader since the crushing of the Tiananmen Square protests in 1989. China then tolerated a flurry of dissident activity, including the emergence of Mr Xu's opposition party, in the build-up to a return visit by President Clinton to China in 1998. But neither the releases nor the underlying state of relations between the two countries imply anything much about China's willingness to tolerate dissent. Mr Xu says the China Democracy Party is now “at a standstill” in China thanks to the crackdown launched a few weeks after Mr Clinton's departure.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Murder in Yemen

Backlash in the badlands

Jan 2nd 2003 | CAIRO
From The Economist print edition

AP

An Islamist wave of anti-American anger is sweeping in random victims

Get article background

THE unluckiest man is he who rides the lion or rules Yemen. The proverb dates from long ago, before the time when the number of guns in Yemen overtook the number of its citizens. But even for this rugged, unruly place, the murders, in the space of three days, of three American missionaries and an opposition party leader are deeply disturbing. Particularly as they raise the spectre of further attacks on “soft” targets as a backlash against America's perceived belligerence and bullying continues to sweep the Muslim world.

The three slain missionaries—William Koehn, Kathleen Gariety and Martha Myers, a doctor who is seen in the photograph above—had spent a large part of their lives as medical workers in Yemen. The hospital they helped to run, founded by American Baptists in the 1960s, served 40,000 poor Yemenis a year in the scenically spectacular Ibb province south of Sanaa. The man who killed them on December 30th, Abed Abdel Razzak Kamel, a 32-year-old graduate of an Islamic college, escaped security checks by swaddling his Kalashnikov rifle to look like a sickly infant. He was captured after the gun jammed.

Yemeni security officials said he claimed to be acting to “cleanse” the country of infidels. They also asserted that he belonged to the same Islamist cell, possibly linked to al-Qaeda, as the assassin of Jarallah Omar, the deputy secretary-general of the Yemeni Socialist Party, who was shot dead at an opposition conference two days earlier, after making a speech calling for gun control.

A veteran of Yemen's rough-and-tumble politics, Mr Omar, aged 64, was an outspoken secularist. But his opposition to the recent government measures that curtailed freedom, as well as to the close security collaboration with America, had prompted him to co-operate with the Islah party, a broad front of Islamist groups that has increasingly strained relations with the government of Ali Abdullah Saleh.

Illustrating this strain, Islah's own security men detained and interrogated Mr Omar's attacker for several hours before handing him to the police. Party leaders apparently sought to videotape his testimony, fearing that the government might try to implicate them in the murder. The assassin was indeed, it transpired, a former member of the party, and a graduate of the same Islamic college that Mr Kamel attended, which happens to be run by Sheikh Abdel Meguid al-Zindani, a founder of Islah who once fought with Osama bin Laden in Afghanistan.

This link gives the government ammunition for what Yemeni analysts believe is a looming showdown with Islah. President Saleh, who belongs to the same tribe as the party's top leader, relied on the Islamists' help to win a civil war in 1994, and subsequently ruled in coalition with them. However, even before September 11th, he had begun to close down a network of religious schools backed by the group, and was expelling thousands of foreign students, many of them Afghan veterans.

The Islah party has strenuously dissociated itself from the spate of terrorism that has plagued the country, including kidnappings of foreigners and the attacks on the *USS Cole* in October 2000 and on a French supertanker last year. But a government intelligence report, presented to Yemen's parliament this week, accuses “certain opposition leaders” of protecting and inciting terrorists, and of issuing *fatwas* that justify attacking foreigners.

The report has raised the temperature at a time when opposition parties were planning to challenge the government's counter-terrorism policies. In particular, they hoped to capitalise on the widespread unease at its pro-American tilt. November's rocketing of a carload of suspected al-Qaeda men by an American drone aroused great ire as a breach of Yemeni sovereignty. Still, this week, perhaps emboldened by public disgust at the latest murders, the government for the first time admitted that it had expressly authorised the American operation.

Despite his tenuous security control, Mr Saleh is expected to weather the storm, as he has so often done before in his 24 years in power. His alliance with America may be unpopular, but Yemenis generally recognise that addressing the country's dire problems requires stability.

Other random victims are threatened by the generalised anger with American policy. In the past few months alone these have included another American missionary medic killed in Lebanon, and a USAID official in Jordan. A recent cartoon in a Yemeni newspaper expressed the widespread feeling that while America may cajole governments into co-operation, it is unwise to ignore the underlying hostility. It shows America playing with matches, surrounded by a ring of fire.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iraq and sanctions

Another twist of the screw

Jan 2nd 2003
From The Economist print edition

At this time of phoney war

IRAQIS hardly need to make new-year resolutions. The UN Security Council has long provided their country with resolutions for free, and made as sure as it can that they are kept. The latest one, passed on December 30th after a month of American prodding, further expands the long list of goods for which the besieged state has to get permission before it can import, and then probably can't.

The thrust of the new restrictions reflects the drafters' preoccupation with a possible war: Iraq will no longer, for instance, be able to import speedboats, or radars designed for meteorological use. With a decade of sanctions having already reduced most Iraqis to penury, most of the additions will have limited impact on ordinary citizens.

The argument is more controversial when it has to do with medicines that have crucial everyday uses in peacetime as well as possible use in time of war. After debate in the council, “quantity quotas” were introduced to prevent stockpiling of some drugs, including atropine, and selected antibiotics.

Iraqis are currently receiving double rations of the government-distributed food they rely on to survive. This comes as small comfort, however, since the move is aimed at building up stocks in preparation for the war that still seems inevitable, despite the Iraqi government's apparently exemplary co-operation with UN inspectors. Since the search for banned weaponry resumed in November, UN teams have yet to declare anything untoward in the more than 200 forays they have made across Iraq.

Baghdad has now given the inspectors a list of scientists, and the process of interrogating them has begun. Kofi Annan, the UN's secretary-general, said on December 31st that he saw no basis at present for the use of force. But Hans Blix, the chief inspector, will be reporting to the council on January 27th on what he has found, or not found.

Meanwhile, the build-up of American and British forces in the Gulf has accelerated, bombing raids in the “no-fly” zones continue, and the diplomatic pressure on America's allies to fall into line has intensified. By mid-January as many as 100,000 American troops will be ready, if necessary, to strike the country and its dictator.

While American leaflets dropped over Iraq advise the country's soldiers to “think of your families”, the Iraqi army occupies itself arranging white-painted boulders on which high-flying American pilots can read “Down USA”. Moreover, events in North Korea, that other pole in the axis of evil, allow Iraqi officials to harp more insistently than ever on their favourite theme of double standards.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Israel's election

The going gets sleazy

Jan 2nd 2003 | JERUSALEM
From The Economist print edition

But a tough and sullen electorate has no patience with the dovecotes

Get article background

WHILE the savagery of the Palestinian conflict continues to drive the Israeli electorate ever rightwards, a wave of scandal in the Likud may now be hurting the prime minister's party. One poll this week had Likud at 31 seats in the 120-seat Knesset. Others put it at 34. At its peak last month the party was topping 40. But there is no rejoicing on the left: most Likud defectors seem to go to the religious Shas Party or to the secularist, centrist Shinui. Labour has been stuck for weeks at around 22 and the entire doveish camp—Labour, Meretz and the Arab parties—poll barely 40.

Yet in the occupied territories, the Palestinians have just endured one of the bloodiest months of the *intifada*. Nearly 50 Palestinians were killed in December, against seven Israeli soldiers and settlers. Many of the slain Palestinians were fighters, killed in skirmishes with the army along the lethal frontlines of Rafah, Nablus and Jenin. But many were innocents.

On December 29th, for instance, a boy aged eight and a girl aged nine were killed by army fire within hours of each other: he during stone-throwing clashes in Tulkarm; she while standing outside her shelter in Gaza's Khan Yunis refugee camp. In Hebron, the Israeli border police allegedly beat an 18-year-old to death. Two days earlier, Palestinian gunmen had killed four religious students in a settlement near Hebron. A worse slaughter was averted by the bravery of a guard at the school.

Palestinians believe that the intensified killing is part of Ariel Sharon's election campaign. Israelis believe that the prime minister's harsh tactics are working: December's seven Israeli dead compared with 22 in October and 44 in November. So Likud strategists are straining to keep voters' attention on the Palestinian conflict, away from the daily revelations of bribery and vote-buying that are rocking the party.

EPA

Mrs Blumenthal's surprising popularity

On December 31st Mr Sharon peremptorily fired a Likud deputy minister, Naomi Blumenthal, for refusing to co-operate with the police investigators who are looking into the party primaries in November. It was unacceptable, the prime minister maintained, for a public figure to resort to the citizen's constitutional right to remain silent. The well-heeled Mrs Blumenthal, a veteran politician, reached the surprisingly high ninth spot on the Likud list, higher than much more prominent and popular party figures. Mr Sharon, concerned to distance himself from sleaze, says that any candidate found to have used improper means to get elected will be forced out.

The primaries threw up a slew of suspiciously unknown candidates. Blocks of votes were said to have been offered, by recognised “vote suppliers”, to candidates who could pay in cash or favours. But Mrs Blumenthal hints that the prime minister is victimising her in order to deflect attention from the role of his own son, Omri, a new Knesset candidate, in rounding up support for himself and for his father. Awkwardly, Omri Sharon had himself once clung to the right to remain silent when questioned by the police in an earlier electoral investigation. Ah, but that was different, say Mr Sharon's aides, because Omri was not, then, a public figure.

Party activists have begun to talk of growing disaffection among members and voters. One Likud mayor, Eli Moyal of Sderot, called publicly for the election to be postponed while the party cleans out its house.

How can the prime minister decry the Likud list, he asked, and at the same time urge people to vote for it?

There is disaffection, too, on the Labour side, where the party faithful are muttering about the failure of their new leader, Amram Mitzna, to profit from the Likud's misfortunes. Mr Mitzna, a former general and now the mayor of Haifa, is running on a clean-politics platform. But the dirt exposed in the Likud is not helping him.

The tough and sullen mood pervading much of the electorate was reflected in the disqualification this week of two prominent Arab candidates, Ahmed Tibi and Azmi Bishara, both members of the present Knesset, by the Central Elections Committee. The committee, comprising representatives of all Knesset factions and presided over by a Supreme Court judge, refused to disqualify a rightist candidate with a long record of anti-Arab racism. The judge demurred on all three rulings, which will be reviewed by the court itself.

Majority sentiment on the committee was expressed by a representative of the Shas Party who told the judge, “It's all politics here; nobody gives a damn about you.” The statutory provision ostensibly at issue bars candidates who “support armed struggle by terrorist organisations” or who reject Israel as a “Jewish and democratic state”. Far-right factions moved for the disqualification of all the Arab parties. Those motions were voted down. But a leading law professor gave warning that this would be the next stage, and not the last stage, unless the court stepped in. “Jewish parties will be banned, too,” said Mordechai Kremnitzer of the Hebrew University. “Our democracy is in danger.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

A new ruler for Kenya

Rainbow-coloured newcomers

Jan 2nd 2003 | NAIROBI
From The Economist print edition

And goodbye and good riddance to (most of) the old lot

DANIEL ARAP MOI, Kenya's outgoing president, entered a decrepit Nairobi park to give some last advice to the people he had ruled for 24 years. “Thief!” responded a crowd of 200,000. Mr Moi escaped a lynching—the usual outcome when a Kenyan mob catches a robber—but people pelted his car with mud and jeered at his speech. Such was the mood at the inauguration of Mwai Kibaki, the opposition leader who won the election on December 27th with over 60% of the vote.

Though long deaf to dissent, Mr Moi took the hint, skipping lunch with Mr Kibaki and fleeing to one of his farms. Many of his cronies will also now have more time for their cows: 14 ministers lost their seats to Mr Kibaki's National Rainbow Coalition (Narc), leaving KANU, Kenya's ruling party since independence in 1963, with a wretched 60-odd seats out of 210.

It was a relatively good election. With Mr Moi constitutionally barred from standing again, there was less violence and rigging than at previous ones. KANU battled manfully, led by Uhuru Kenyatta, the callow son of Kenya's founding father. Some opposition rallies were broken up by club-wielding thugs and volleys of arrows. Police fired on Rainbow campaigners in Nairobi, killing three. The wounded were barred from hospital by gun-toting KANU men, who beat them up again, plus a doctor for good measure. Elsewhere, a KANU candidate reportedly handed out machetes displaying his slogan.

EPA

A new broom was not enough

The opposition was not blameless. Mr Kenyatta was barred from most of western Kenya by burning barricades and stone-throwing mobs. Raila Odinga, a Narc leader who defected from KANU not long before the election, threatened to lead a million-man march on State House if Mr Kenyatta were to claim victory. One KANU district candidate's husband and six children were burned to death in their beds.

Still, a team of EU observers ruled the election “free and fair”, which, by Kenyan standards, it was. Six campaigners were murdered after polling began; some ballot papers were delivered with Mr Kenyatta's name already ticked; and in one remote constituency, Mr Moi's choice won on a 150% turnout. The opposition objected to the large number of registered voters omitted from the electoral roll. Mr Odinga said 2m opposition supporters had been disfranchised. The electoral commission put the figure at a few tens of thousands, and ascribed the problem to incompetence.

Mr Kibaki's victory, which was predicted by several opinion polls, was never really in doubt. In the two previous elections, the opposition won only slightly less of the vote, but lost because it was split. This time, it was united. Yet Kenyans are finding it hard to believe that they are really getting a change of government. In Nairobi, two days after the first results were announced, shops were shuttered and streets deserted as people waited for Mr Moi's next move. But it never came. Hours after the final results were out, Mr Kibaki was sworn in.

The inauguration was chaotic, even without Mr Moi's intervention. Dignitaries were stoned and journalists charged by mounted police. Placards—including one reading “Raila Odinga for UN secretary-general”—became weapons. Urchins sniffed glue beside diplomats. Bloodied bodies rushed by on stretchers, alongside a marching band. Then Mr Kibaki arrived in his wheelchair (he was recently injured in a car accident) and gave his speech.

He promised to end corruption and rebuild a country “badly ravaged by years of misrule and ineptitude”. Excellent ideas, but will he deliver? Given that Mr Kibaki, now aged 71, was Mr Moi's vice-president for a decade, and that many of the winning party's top members are ex-KANU rogues, sceptics doubt it. Some predict that his coalition, united as it is only by its loathing of Mr Moi, may fall apart.

That need not be disastrous. All previous Kenyan political parties were coalitions of greedy private interests. If Mr Kibaki really wants to do good, he has a stiff enough majority to let the greediest go.

And if the new president does as he has promised—gets two anti-corruption laws and a new draft constitution passed; privatises state-owned firms, including the ruined telecoms company; and replaces the lightest-fingered civil-service bosses with honest officials—Kenya's prospects will look much happier. The Rainbow coalition includes some young politicians who favour reform: Najib Balala, for example, a former mayor of Mombasa, who cleaned up the city's politics and streets so well that Mr Moi got rid of him.

Donors will also push Mr Kibaki in the right direction. Without access to Mr Moi's patronage network, he needs their money. Aid has been frozen for five years, but if Mr Kibaki can show that he is at least half-serious about reform, around $500m could be up for grabs. A start would be to name a cabinet which puts as few ex-KANU noses as possible back in the trough.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

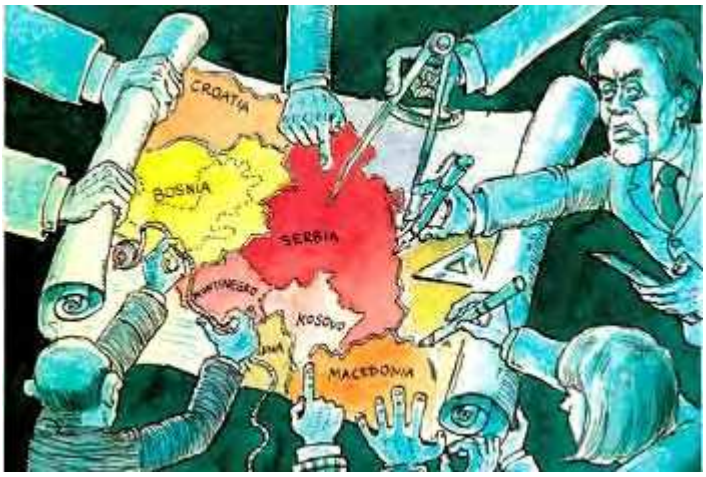
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Balkans

Who's in charge?

Jan 2nd 2003 | BELGRADE AND WASHINGTON, DC
From The Economist print edition



Despite a political impasse in Serbia, the Balkans are still a lot calmer than before

DOES it matter that Serbs and Montenegrins, reluctant partners in what is left of Yugoslavia, seem unable to elect a president for either of their two states? On December 8th, for the third time in a row, Serbs failed to fill their top spot, on this occasion because too few of them turned out to vote. A fortnight later the Montenegrins followed suit. Both states are plainly in for a bout of instability. Yet it would be wrong to herald a return to permanent gloom in 2003 and beyond. Across the Balkans, things are still a lot better than before. On most fronts—economic and political—progress is steady. The region remains calmer than at any time since Yugoslavia, once six republics strong, started to break up a dozen years ago.

For sure, ordinary Serbs and Montenegrins will suffer as their governments find it harder to press ahead with reform. Corruption and organised crime are too prevalent. But this does not mean that the Balkans are in for new bloodshed. Serbia and Montenegro, whatever their own political problems, have been getting on better with each other. Serbia's relations with Kosovo, its breakaway southern province, now under the United Nations' administration, have improved. And elsewhere in the usually troubled and still fragile Balkans—in Macedonia, Albania, Croatia and Bosnia—the political and economic outlook has perked up considerably.

The latest hiccup in Serbia arose from the fact that two of the men who came together in late 2000 to topple the country's tyrant, Slobodan Milosevic, had little in common bar wanting to topple him. Ever since, Vojislav Kostunica, who took over as president of the rump of Yugoslavia (and who has been trying in vain to become president of Serbia too), and Zoran Djindjic, who became Serbia's prime minister, have been at loggerheads.

Their relentless infighting has slowed change and left most Serbs feeling barely better off since Mr Milosevic fell. A recent poll in a Belgrade newspaper, *Politika*, found that just over half of Serbs thought their standard of living worse or no better than a year ago; less than one-third thinks it has improved. The turmoil discourages foreign investors. Hardly surprising, then, that more than half of Serbs could not be bothered to turn out last month to vote.

Politicians' relentless infighting has left most Serbs feeling barely better off since Mr Milosevic fell

Mr Kostunica cried foul, claiming that Mr Djindjic's people added some 400,000 non-existent voters to the roll to ensure that the presidential poll would be invalid. Mr Djindjic, whose government was not up for election, is heaving a sigh of relief. So he is left in

charge of Serbia, at least for the time being, while Natasa Micic, the Serbian parliament's speaker, took over as the country's acting president on December 30th. A glamorous political nobody known as “the Serbian Nicole Kidman”, she must now, after consultations, decide when to call yet another presidential election. Meanwhile the political waters are being further muddied by proceedings in Belgrade to send Milan Milutinovic, Ms Micic's predecessor as Serbia's president, to the UN's war-crimes tribunal at The Hague, for crimes alleged to have been committed several years ago by Serbian forces in Kosovo.

Messrs Djindjic and Kostunica are still struggling to prove who is in charge. Mr Djindjic is unpopular. His critics say he is too friendly with gangsters and unsavoury types in the security apparatus who now serve him as loyally as they served Mr Milosevic. For his part, he would like in the coming months to change the Serbian constitution to make the presidency irrelevant. And he wants to prevent Mr Kostunica from persuading enough MPs to call a Serbian general election, because Mr Djindjic would probably lose it.

Nice Serbs don't often win

Mr Kostunica is still plainly Serbia's most popular politician. But, if the impasse continues, he could be out of a job soon, because the country he presides over—Yugoslavia—may cease to exist. After months of wrangling, Serbia and Montenegro have finally agreed, under pressure from Javier Solana, the European Union's foreign-policy chief, on almost all the details of a deal to abolish Yugoslavia and create, early this year, a new and looser union to be called simply Serbia and Montenegro (or “Solania”, as the region's humorists have it). Mr Kostunica's job as Yugoslav president would then go. Mr Djindjic, hanging on as Serbia's prime minister, however unpopular, would mark that down as a victory for himself.

The compromise over Montenegro is sensible. Serbia and Montenegro will each have wide autonomy, while preserving some joint policies, for instance in defence and foreign affairs. How the couple will co-ordinate their economies is fuzzier. Mladjan Dinkic, governor of the National Bank of Yugoslavia, which may become the Serbian National Bank, predicts chaos. The agreement is for three years, after which, assuming it lasts that long, either side can opt for independence or renew the deal.

While most Serbs and Montenegrins are probably happy with it, Kosovo's ethnic Albanians feel distinctly uncomfortable. Though their province is still nominally part of Yugoslavia and of its coming successor state, the UN has run it since June 1999. It has made steady progress, and now has its own parliament, government and president, though the UN's proconsul still has the last say on anything big.

Kosovo's jumpy Albanians

But the leaders of Kosovo's 1.8m Albanians are twitchy because they fear that the Americans and Europeans, both of whom are reducing their military presence there, want to start talks on the region's “final status” in an effort to force the Kosovars to give up their dream of independence. The Americans in particular, who are trying to concentrate their political and military focus on Iraq and the war against terror, want the Serbs in Belgrade and Kosovo's Albanians to open a dialogue.

Talks on final status are unlikely to begin for a year or so. At a recent conference run by a Washington think-tank, the US Institute of Peace, American policymakers were plainly keener on independence for Kosovo and in much more of a hurry to leave the place than the Europeans. But on both sides of the Atlantic it is agreed that Serbs and Albanians should start talking soon, at least about things like electricity and transport. Pressure on them to do so may be bearing fruit. Nebojsa Covic, Serbia's deputy prime minister, recently met Kosovo's prime minister, Bajram Rexhepi.

On both sides of the Atlantic it is agreed that Serbs and Albanians should start talking soon

So far this year, ethnic violence in Kosovo between Serbs and Albanians has claimed less than a handful of deaths. More than three years after its arrival, the NATO-led peacekeeping force known as KFOR, still some 30,000-strong and drawn from dozens of countries, has too little to do and is steadily shrinking. The reductions worry Kosovo's 90,000 remaining Serbs, many of whom still live in KFOR-protected

enclaves. Occasional ethnic-Albanian attacks on parties of Kosovo Serbs trying to come back home from outside the province, where some 230,000 are still taking refuge, keep most of them out. Kosovo's UN administrators recently tried, with some success, to reassert their authority over the Serbs living north of the ethnically-divided city of Mitrovica, who had been running their own security system.

Fingers crossed in Macedonia

Tension is higher across the border in ethnically-divided Macedonia, once also part of Yugoslavia. But things are better there too. In 2001, government forces loyal to Macedonia's Slav majority repeatedly clashed with wilier Albanian rebels demanding constitutional changes and autonomy. But peace seems to be holding up fairly well, thanks in part to the formation, after a general election four months ago, of a coalition of moderate nationalists from both communities. Only 470 NATO troops are now expected to stay on as observers. A military team under the European Union's aegis is expected to take over the running of the peacekeeping mission.

Similar signs of hope are spreading across the rest of the region. In Bosnia, despite recent gains by nationalist groups (Serbs, Croats and Muslims) in local elections, more refugees have come home this year than at any time since the war ended in 1995. On January 1st, the EU took over the UN's police mission there. The foreign ministers of Yugoslavia, Bulgaria and Macedonia recently posed for a family photo where their borders all meet, to inaugurate a peaceful new demarcation of frontiers. Last month, Croatian and Yugoslav ministers settled a festering territorial dispute and signed a free-trade agreement. Flights have restarted between Belgrade and Ljubljana, the Slovene capital, after a break of 11 years and between Belgrade and Tirana, Albania's capital, after a break of 21 years. Both the Albanian and Slovene foreign ministers have recently been in Serbia.

Five Balkan countries—Albania, Bosnia, Croatia, Macedonia and Yugoslavia—have asked the EU to look kindly on their requests to open negotiation for membership of the club. Lord Robertson, NATO's secretary-general, has again told Macedonia and Albania that they are welcome to apply to join the alliance. In the United States an analysis by the Council on Foreign Relations argues that an international military and administrative presence in the Balkans could end by 2010, if a number of conditions are met, including a curb on organised crime, the ability of refugees to return safely home, and co-operation with the UN's war-crimes tribunal.

At the Washington conference several European and American policymakers talked hopefully about Cyprus, where a settlement at last looks feasible, partly due to the carrot of EU membership. A model for Serbia and Kosovo? That such a notion is being seriously mooted is hopeful.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

France and terrorism

Fertile ground

Jan 2nd 2003 | PARIS
From The Economist print edition

France is twitchier than other countries about home-grown Islamic terror

FIVE packs of plastic explosives, two detonators, a roll of fuse wire, an automatic pistol and a machinegun—all found last weekend in the boot of a car parked just yards from one of the runways of Paris's Roissy-Charles de Gaulle airport. The car's owner, Abderazak Besseghir, is a 27-year-old baggage handler of Algerian origin. His defence? He was framed by his in-laws, seeking to avenge the death last summer of his wife in a house-fire for which they hold him responsible.

Whether Mr Besseghir's explanation is credible (investigators have so far found nothing to link him to Islamic extremists) is beside the point: the horrifying arsenal was apparently discovered only by the suspicions of an alert bystander, despite heightened security at an airport which, just one year ago, had allowed Richard Reid, a British convert to Islam, to board a flight to Miami with a bomb in his shoe.

Could security be further tightened? In the aftermath of the September 11th attacks on America, Roissy-Charles de Gaulle and Orly, the capital's second airport, have already increased their security personnel from 3,200 to 4,000 and installed new explosives-detectors; soon, airport workers will need to match their fingerprints to their security badges. But no system is likely to be foolproof, given that the two airports together employ some 80,000 people, all of them with access to areas out-of-bounds to passengers. Indeed, authorities at Roissy recently withdrew the security passes of around 200 of its 55,000 employees after belatedly discovering they had criminal records or links with Islamic extremists.

All of which underlines that France's multiple intelligence services have their work cut out. During raids in the Paris suburbs in November the anti-terrorist police arrested six Algerians and Pakistanis suspected of having helped Mr Reid; in raids a few days earlier they had arrested some 11 suspected al-Qaeda sympathisers, including an Algerian believed to have planned the assassination in Afghanistan on September 9th 2001 of the anti-Taliban leader, Ahmad Shah Masoud. Last week, the interior ministry announced a series of yet more arrests, linking nine people to al-Qaeda and to Chechen extremists and accusing them variously of possessing bomb-making materials and plotting attacks on Russian targets in France, including the Russian embassy in Paris.

But, for all the arrests, the question is whether the intelligence services are winning or losing. Of France's 60m people, between 4m and 5m are Muslim, often concentrated in the run-down suburbs around most of France's towns. Add passport-free travel between the countries of the European Union (Britain and Ireland are the two exceptions), and it is easy to see how Islamic extremists can disappear from the authorities' sight. It is also easy to see how their numbers can grow, thanks to inflammatory preaching by fundamentalist imams from the Middle East and North Africa: the youngest son of an imam in Lyons is being held by the Americans in Guantanamo, while the eldest was arrested last week on suspicion of involvement in Chechen terror (see article).

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Russia and Chechnya

Nothing normal

Jan 2nd 2003
From The Economist print edition

Russia's insistence that it can bring calm to Chechnya rings hollower than ever

Get article background

THE only place where Russian officials in Chechnya were safe is now rubble. The three men who drove two dynamite-packed vehicles into the courtyard of the administration building in Grozny on December 27th did their job thoroughly: the death toll is nearing 100.

Like October's hostage crisis in Moscow, in which over 40 heavily-armed rebels drove through the capital before seizing a theatre, the latest attack showed that the best Russian security measures are often a farce. According to a Chechen official, the attackers drove vehicles with Russian-army licence plates, were dressed as Russian soldiers, and showed military documents, or good fakes, at checkpoints on their way through the republic's capital. Even the Russians' most basic security measure—their acute eye for racial origin—failed: two of the men, according to reports, had blond hair and Slavic features.

Which of the various rebel factions did it is not clear. But the attack confirms a shift in tactics. Until the Moscow crisis the separatists had fought, essentially, a guerrilla war. The Moscow hostage-takers declared themselves ready for martyrdom, but lacked either the time or courage to blow up their captives and themselves before the special troops who stormed the theatre killed them. The Grozny bombing, though, was the first clear and successful suicide mission since the conflict began in 1994.

AP

The Russians' safest house in town

That allowed the government to trumpet, yet again, a supposed parallel between its Chechen campaign and the Americans' anti-terror war: “The terrorists in Russia's Chechen Republic have once again shown that they are a unit of the world terrorist international,” said the foreign ministry. Muslim radicalism and some of its methods have undisputedly made inroads among the rebel Chechens; Algerian-born militants arrested last week in France have been accused of targeting Russian interests there out of support for the Chechens. But there is no sign that the bloody Chechen conflict has become more than a local struggle for power or that outsiders have taken control.

In any event, the attack is a big blow to Moscow's hopes of bringing normality to Chechnya. This year the government plans a referendum on a new (non-separatist) constitution and a presidential election for the republic, and has been closing down refugee camps in neighbouring Ingushetia and forcing their inhabitants back to Chechnya. The building in Grozny was both the seat of power and the symbol of Chechnya's reconstruction. Any normality will be as flimsy as the new headquarters now hastily being put up.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Greece and the European Union

Taking the chair

Jan 2nd 2003 | ATHENS
From The Economist print edition

Greece's leader has high hopes for its EU presidency but faces big problems

AFTER Denmark's successful six-month stint in the European Union's chair, Greece's prime minister, Costas Simitis, is keen to do as well. Under his aegis, Greece has overcome its reputation as the EU's unruly teenager. At last month's Copenhagen summit he dropped his caution about Turkey, energetically backing Turkish efforts to secure a firm date for accession talks.

His big opportunity will be the ceremony in Athens on April 16th, when the EU's ten prospective new members are due to sign their accession treaties. Greece will try hard to ensure that the ten include a soon-to-be reunified Cyprus, not just, de facto, the Greek-Cypriot half. The United Nations is squeezing the rival Cypriots to reach at least a framework agreement on a form of unity by February 28th.

Mr Simitis cannot put domestic politics on hold. He has taken personal responsibility for the success of the Athens Olympic games in August 2004, a time-consuming chore thanks to infighting among organisers and delays in building new sports and media facilities. He also has to fend off George Papandreou, the foreign minister and front-runner to succeed him as Socialist party leader, who sees the EU presidency as a chance to promote his own prime-ministerial ambitions.

Mr Papandreou is already pushing for a shift in the EU's approach to immigration that would enable young people from poor Balkan countries like Albania to get seasonal work permits rather than simply slide into the EU illegally. EU diplomats fear that the Greeks, already short of top-class civil servants able to cope with the demands of EU work, will be side-tracked from getting on with duller, nuts-and-bolts issues. And Mr Simitis's installation of one of his own men, Tassos Yannitsis, as European-affairs minister, to contain the foreign ministry, may lead to confusion.

Mr Simitis may also face real problems if the Americans attack Iraq. The EU has no true foreign policy, and a two-headed foreign-policy machine. At home, fears that tens of thousands of Iraqi refugees could turn up on Greece's shores may strengthen an expected wave of anti-American feeling. Mr Simitis had trouble controlling the hard left of his party during NATO's bombardment of Yugoslavia in 1999, when daily demonstrations were held outside the American embassy in Athens. A similar sustained outcry over Iraq could ruin his dream of a smooth EU presidency.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Charlemagne

And for my next task

Jan 2nd 2003
From The Economist print edition

The European Union's institutional dynamism is marred by its economic sloth

HYPER-ACTIVITY is a way of life for the European Union. Last year began with the appearance of euro notes and coins in wallets from Lapland to Lisbon. It ended with the EU agreeing to admit ten new countries, including most of the old Soviet block. This year will see the launch of the EU's first-ever military operation (in Macedonia), and should end with agreement on a formal EU constitution. In just two years, the Union will have got many of the most important features of a nation-state: a currency, a military capability and a federal constitution.

What accounts for this frenzy of activity? Much of it—most obviously, the EU's enlargement to include countries like Poland and the Baltic states—is a delayed reaction to the collapse of the Soviet Union. The decision to set up an EU military arm also reflects the feeling that, after the cold war, Europeans have to do more for their own security. Negotiating the relationship between the EU's military wing and NATO has been tricky and time-consuming, but agreement was finally reached at the Union's summit last month in Copenhagen. In the next few months the first-ever EU-flagged force will take over peacekeeping from NATO in Macedonia. By the end of the year, the Europeans may also be ready to take over the larger NATO operation in Bosnia.

Many delegates hope that further moves towards integration will help the European Union stand up to the "hyper-power" of the United States

In subtler ways, the creation of a constitution and a single currency are links in the chain of events set off by the fall of the Berlin wall. The single currency made its appearance only last January but its creation was agreed in the early 1990s—when the ghosts stirred by the reunification of Germany convinced European leaders that a dramatic reassertion of the ideal of European political integration was required. The drive to equip the EU with a new constitution is partly because all these other developments—expansion to the east, the single currency, new security and foreign-policy requirements—demand a fresh look at how the EU operates. But the constitution-writing exercise also represents a renewed push by European federalists to ensure that their dream of "ever closer union", culminating in a political federation, is not destroyed by the greater diversity brought into the European Union thanks to enlargement. Many of the delegates to the convention charged with drawing up a draft constitution are also acutely conscious of the diminution of Europe's voice in a world dominated by a single superpower. They hope that further moves towards European integration, enshrined in a constitution, will help the European Union stand up to the "hyper-power" of the United States.

The convention will present its work to European leaders in June. The governments will then pick over the draft for a few months, with the aim of agreeing to a constitutional text by the end of this year. It will be tough going. Several issues are still deeply controversial, including the Union's aspirations to strengthen its power in tax and foreign policy, as well as the balance between big and small countries, and between the EU's various institutions. The chances are, however, that there will be enough political will to force European leaders to reach an agreement—and enable them to end 2003 by hailing yet another triumph for the European ideal.

However, a sequence of EU victories in the conference hall may be overshadowed by events in the real world. EU institution-building will probably be a lot more dynamic, this year, than Europe's economies. And proclamations of the need for a greater Union role in world affairs and for a more unified EU foreign policy could well be mocked by the unleashing of an American-led war on Iraq and the continuing divisions in European policy the war may expose.

Throughout the 1990s the American economy outstripped the European Union's. From 1995 to 2000 it

grew by more than 3% every year, a pace the EU never matched once. At a Union summit in Lisbon in 2000, Europe's leaders resolved to do something about this, promising to produce the “most competitive and dynamic knowledge-based economy in the world by 2010”. Unlike many other EU targets, however, this one cannot be achieved by administrative fiat: Europe's economy is still growing far more slowly than the Americans' one, while most of the EU countries' leaders remain reluctant to undertake the painful structural reforms to make faster growth possible.

The Euro-slug

Even the single currency, which was meant to spur growth, has so far failed to deliver. In 2002 “euroland” (embracing the 12 EU countries that use the single currency) grew markedly slower than the EU's trio—Britain, Sweden and Denmark—that have so far spurned the euro. Its advocates point to strong growth in trade in the euro area and to the euro's rise against the dollar as evidence that the new currency is beginning to thrive. But an appreciating currency could further damage the export-dependent economy of Germany, whose troubles lie at the heart of euroland's difficulties.

This economic malaise will weaken the EU's confidence as the Union attempts to assert itself in foreign affairs. The conflict with Iraq has exposed divisions within the EU, with Britain supporting the United States in its willingness to resort to force, France struggling to constrain the Americans through the United Nations, and the German government led by Gerhard Schröder still loth to endorse American “adventurism”. The outbreak of an actual war may persuade the Germans and French belatedly to play down their differences with the United States. But that might further puncture European aspirations to a clear and unified foreign policy, distinct from that of the United States.

The galling fact for European leaders is that while they are generating a mountain of paper at their convention on Europe's future, their voters are more preoccupied with the present, whose much grimmer characteristics are a stagnating economy and a foreign policy that is both muddled and divisive.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

E-government

No thanks, we prefer shopping

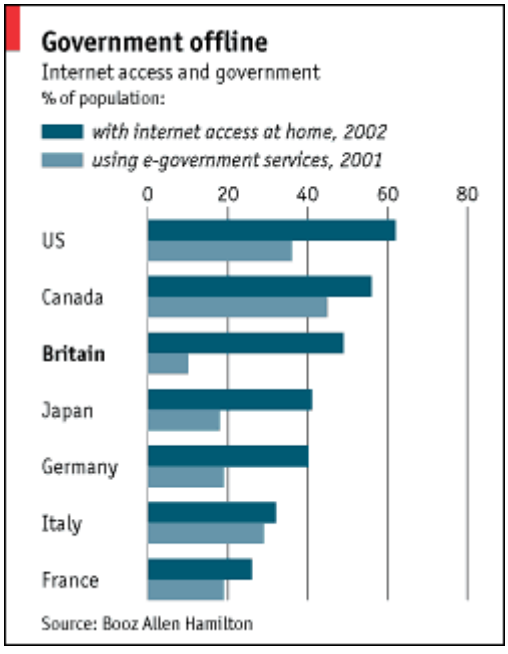
Jan 2nd 2003
From The Economist print edition

Why won't the British deal with the government online?

THE government's obsession with setting targets is well known. So is its enthusiasm for the internet. But the two do not seem to be mixing well. It will require “a miracle” for the government to meet its own deadline for getting all of its services online, according to one of the officials involved in the initiative. Steve Marsh of the Office of the e-Envoy told an e-government conference last month that so far about 70% of government services can be accessed via the internet. That figure is expected to reach only 80% by the end of 2005, the date by which everything was supposed to have been “e-enabled”.

While this is embarrassing, it is hardly the end of the world. Britain is unusual in having set explicit targets for making all government services available electronically. What is far more worrying is that where such services have already been put online, hardly anyone seems to be using them (see chart). “Citizens have so far barely used the government's own online service offerings,” it notes glumly. Worse, Mr Marsh says usage of e-government services has not grown in the past two years, and has even fallen in some cases.

This is odd, because the British are generally rather keen on the internet. In November, online retail sales in Britain cleared £1 billion ($1.6 billion) for the first time, according to a survey by Forrester, a consultancy. Online spending is growing 15 times faster than conventional retail spending (in part, no doubt, courtesy of worsening road congestion).



So why won't Britons deal with the government online? One problem is the sheer proliferation of websites: more than 800 government bodies have spawned over 3,000 sites, according to the House of Commons public accounts committee. Many transactions require co-ordination between several organisations and visits to multiple sites. A more logical approach would be to build websites around specific services—such as housing, transport and education—which could then provide a single point of access to several organisations. But that would mean overhauling procedures behind the scenes and getting those organisations to co-operate. The government's track record with previous large-scale computerisation projects, from the passport office to air-traffic control, is hardly inspiring. Merely applying a thin electronic veneer to the existing bureaucracy is easier, but much less useful.

Another problem is that some government sites are out of date or do not work properly. People will access government services online only if doing so is quicker, easier or cheaper than going through conventional channels. As anyone who has tried to use the Inland Revenue's website to calculate and submit their income tax return will testify, badly designed and bug-ridden sites are likely to make users nostalgic for the old-fashioned, paper-based approach. Improving design and fixing bugs would help; so might providing more financial incentives, such as the £10 rebate offered for sending in tax returns online.

But could there be a more fundamental reason for British apathy towards dealing with the government online? William Heath of Kable, an e-government consultancy, suggests that the underlying problem is “healthy British scepticism” towards the state. Given the hostility to, say, ID cards, it is not surprising if people are reluctant to type their credit-card details or other personal information into a government website.

The e-government targets are now being revised with a new emphasis on the uptake of services, rather than just their provision. But Mr Heath suggests that e-government will not take off in Britain “unless the state behaves in a way that earns our trust” through measures such as freedom-of-information legislation and a revamp of the Official Secrets Act. Until then, the British will stick to shopping.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Criminal justice

Tilting the balance

Jan 2nd 2003
From The Economist print edition

The plan to allow previous convictions to be used as evidence worries many

A YEAR ago, a consultant gynaecologist was acquitted at Preston Crown Court of raping a 38-year-old patient under hypnosis. Minutes after giving its verdict, the jury was horrified to learn that he was serving a six-year prison sentence for a series of indecent assaults on nine female patients, also under hypnosis. His angry victim declared that she had been "raped again", this time by the law.

When Parliament goes back to work next week, the most important piece of legislation facing it will be the Criminal Justice Bill. The government describes this mammoth piece of legislation, spanning 293 pages and 26 schedules, as the most radical shake-up of the criminal justice system in decades. It aims to "redress the balance of the law in favour of victims". It is also exceedingly controversial. Those lining up against it include Lord Woolf, the Lord Chief Justice (top judge), the Bar Council (the barristers' trade union), opposition parties and civil liberties groups.

The most contentious part of the bill is the proposal to allow juries to be told of a defendant's criminal record. In Britain, as in most other English-speaking jurisdictions including America, Canada, Australia and New Zealand, previous convictions cannot be used in evidence, on the grounds that juries should evaluate a case on its own merits, and that knowledge of previous offences would prejudice the outcome of a trial. In Britain, exceptions are made when the facts of the case are so "strikingly similar" that the value of the evidence outweighs any prejudicial effect, and when a defendant attacks a prosecution witness or falsely claims to be of good character. Different judges interpret these provisions in very different ways.

If the new bill becomes law, there will be a presumption that juries should be told of past misconduct unless the court determines that "its prejudicial effect exceeds its probative value". But it is not just previous convictions that the bill proposes should be admissible as evidence. Acquittals and other past conduct are also included. So a jury might be told that a defendant was sexually attracted to children, even if he had never been charged, let alone tried, for paedophilia.

If the government wants more people banged up, the bill seems likely to achieve that

If the government wants more people banged up, the bill seems likely to achieve that. In 1995 the Oxford Centre for Socio-Legal Studies published the results of some work using mock juries on the effect of revealing previous convictions on juries' likelihood to convict. The study found that a jury was 50% more likely to convict if it was told that the defendant had a conviction for a similar previous offence than if it was given no information. The effect was most noticeable in sexual offences. A follow-up study found that magistrates were also more inclined to convict if they knew about previous convictions. As the Law Commission noted: "These findings are not easy to reconcile with the view that lay justices (and, by inference, real jurors) are not susceptible to prejudice."

But more convictions do not necessarily mean more justice. Critics fear that the new disclosure rules will encourage police to round up the usual suspects. "The worrying thing is that it will not just cause miscarriages of justice, it will also cause investigations to be skewed," says Peter Rook, chairman of the Criminal Bar Association.

The home secretary, David Blunkett, has sought to justify the proposal on the grounds that "only a fifth of crimes reported to the police result in a conviction and public confidence in justice being done is at an all-time low". But that is not because the courts are failing. It is because the police solve only a quarter of crimes. In the cases that do go to court, 95% of defendants in magistrates' courts plead guilty, as do 74% in Crown Courts. Tilting the balance of justice in favour of the victim will thus have only a marginal

impact on crime, and by undermining a fundamental principle of the law—the presumption of innocence—it may well weaken public confidence in the system. There is no justice in hanging a dog for its bad name.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Cricket and Zimbabwe

No ball

Jan 2nd 2003
From The Economist print edition

Mixing politics and sport produces a nasty reaction

Get article background

ENGLAND'S cricketers, currently heading for a trouncing in Australia worse than any since 1920-21, have another headache looming: should they play a World Cup match in Zimbabwe on February 13th? The government, eager to snub Robert Mugabe's dreadful regime, has dropped heavy hints in the hope the cricketers would withdraw of their own accord. But it has stopped short of making the request official. Ministers say that their opposition reflects “personal views” and not government policy.

England's cricket bosses say that the problems of the world are not their department (not that they have much to boast about in their supposed core competence either). The government does not prevent British businesses from trading with Zimbabwe, so why pick on cricket? Moreover, pulling out now would be expensive—possibly involving a fine of £1m ($1.6m) and other costs. Missing a key match would also lose them points in the World Cup. Zimbabwe would most likely retaliate, cancelling next summer's tour of England.

AP

Facing a googly

Opinion inside Zimbabwe is divided. The opposition leadership wants foreigners to stay away. Outsiders boycotted the apartheid regimes in then-Rhodesia and South Africa, and helped hasten their end. Turning up would be a propaganda victory for the Mugabe mob. But other Zimbabweans argue that cricket is played mainly by people who oppose the current authorities. A lot of visiting foreigners would be a morale booster for them, whereas a boycott would only feed the regime's paranoia and isolation.

The cricketing authorities look silly for not anticipating the problem and steering clear of Zimbabwe. The government doesn't come out of it too well, either. It should have moved earlier, in conjunction with Australia, which also wants a boycott. Even now, their joint weight could probably persuade the organisers to shift the half-dozen Zimbabwean matches to South Africa, where most of the competition is happening.

The government will meet cricket chiefs next week. Given the ailing game's dependence on public money, some tougher talking may do the trick.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Economic development

Game on

Jan 2nd 2003 | DUNDEE
From The Economist print edition

Lessons in game theory from Scotland's new cluster

SO, LIKE lots of people in economic development agencies across the world, you've been spending festive leisure time playing the latest computer action strategy game—"Grand Economy Boost 3: Cluster City"—and can't seem to make it work? The object, of course, is to pick a city with a foothold in some business that looks like a good bet for the future and make the businesses and the city's prosperity grow. Fail, and you get ridiculed and fired. So here's a humiliation-avoidance guide.

You have snazzy tools such as Scottish Enterprise, the main economic development agency north of the border, with about £40m ($64m) a year to spend on promoting clusters in such exciting businesses as energy and biotechnology. You have cluster theory: firms in the same line of business grouped in an area with the right networking and support services will prosper if the market is good. And you have government ministers to make big announcements and perhaps open the Treasury vaults.

Tip One is to ignore them all at the first level: getting something started. In the 1980s, Scottish Enterprise thought the declining shipbuilding and light engineering trades in the Scottish city of Dundee could be turned to making car engines. It offered Ford pots of money to build an engine assembly plant. The car-maker eagerly agreed, but then rival trade unions started fighting. Blatt! Lives gone.

So Tip Two: look for the unexpected in the unlikely place. Around the same time as the Ford debacle, Timex had turned over its Dundee watch-making factory to churning out Sinclair ZX Spectrum computers. Unlike other computers of the time, you could program the Spectrum. Kids discovered it was great for making up computer games. A lot of Spectrums fell off the backs of lorries. Thus a generation of computer-games designers was born. Brrrm! Energy levels up.

Getting to the second level of this game—having a working company—is tricky. The hero entrepreneur is not provided, but has to be talent-spotted from a herd of nerdy youngsters. Tip Three: spot the one with some money and the will to make lots more. The twist in this game is that he is unemployed—David Jones, a hardware engineer, took a redundancy pay-off from Timex because he thought software design was more promising.

A couple of years into a programming course at the Dundee College of Technology (which soon after became Abertay University), and he was earning £20,000-30,000 a year writing programs and employing most of his fellow students. He put studying on hold, set up a company—DMA Design—and after a few tolerably successful games, hit the jackpot in 1991 with a game called "Lemmings". His company swelled to 120 employees. Bing! Gain a life.

But how do you get to Level Three: lots of such companies? Tip Four: make more David Joneses. In 1994, Ian Marshall, professor of computing at the new Abertay University, hit on the idea of tailoring his courses to offer degrees in computer games, the first such in Britain. Apart from being an exciting, fun-sounding degree, he says, designing a game involves all the computing essentials. Abertay now has ten applicants for every place on the course. Between them, Abertay and Dundee universities produce about 90 computer-games graduates a year.

"We encourage our students to be entrepreneurial and competitive," says Mr Marshall. For the last four years Abertay has run a competition for teams of five students to devise a working prototype of marketable digital technology. So far, each year's winners have gone on to form a company, for which Abertay provides an incubator. Tarantara! Final level.

Scotland now has 13 computer-games development companies, about 10% of

the British total. Just over half are in Dundee. The games industry and associated digital companies employ some 1,500 people in and around Dundee. Scottish Enterprise's input is fairly minimal; so far, about £1m a year mostly spent on helping games companies attend trade fairs and encouraging networking, though it is planning to build a digital business park. The cluster is attracting outside attention: in 2002, Arius 3D, a Canadian company, announced that it was planning to spend £7m on an innovation centre in the city to develop 3D scanning technology.

The games industry and associated digital companies employ some 1,500 people in and around Dundee

At this level, however, new dangers lurk. Andy Campbell, business development manager of Visual Sciences, producer of Formula One racing games, says that producing a game now costs £1m-5m, likely to rise to as much as £30m with the next generation of home gaming consoles due in a few years' time. These are huge sums for small firms to risk; typically they are borne by electronic publishing firms, which Scotland does not have.

So Tip Five: find new money sources. Noble Fund Managers of Edinburgh is raising £25m in project finance for computer-games development. The Scots gamers have the track record to justify a punt: Rockstar North in Edinburgh (formerly DMA Design, now owned by Take Two, an American publisher) has produced the “Grand Theft Auto” series, and Denki of Dundee has sold games to Sky Television's interactive service.

The rewards can be big. In February 2002, “State of Emergency”, a game produced by Vis Interactive of Dundee, topped the selling charts. Vis took most of the development risk and so, unusually, got 50% of the royalties. “Our revenues this year have been very significant,” says Chris van der Kuyl, chief executive. He hopes they will be bigger still when, with Telewest, a cable TV firm, he launches Britain's first entirely digitally-generated TV channel, a horse-racing game on which viewers can bet. Vrrooom! New level?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Bagehot

The tipping point

Jan 2nd 2003
From The Economist print edition

For the desperate Tory leadership, the "tipping point" is an idea whose time has come

SHOULD you find yourself chatting with almost any senior member of the shadow cabinet, it is a fair bet that before too long the words "tipping point" will have been discreetly dropped into the conversation. Soon, they will be repeated. And, just in case you haven't been paying attention, before the conversation ends, the words will be repeated yet again.

No idea is more appealing than one which appears to offer not only an explanation for the grimness of one's predicament, but also the possibility of escape from it. Thus has the Tory leadership embraced the concept of the "tipping point" with something like the fervour with which a drowning man might cling to a solitary passing piece of flotsam.

Iain Duncan Smith has Margaret Thatcher's favourite public relations man, Tim (now Lord) Bell, to thank for this. A few weeks before Christmas, Lord Bell made a presentation to the shadow cabinet based around the ideas of Malcolm Gladwell, an American journalist, who, a couple of years ago, wrote a bestseller called "The Tipping Point: How Little Things Can Make A Big Difference".

The term "tipping point" first entered popular use in the 1970s as a way of explaining the flight to the suburbs of middle class whites (sociologists had discovered that when a neighbourhood became 20% black, the remaining whites would "tip", leaving almost at once). It derives from a mathematical insight known as geometrical progression and is most commonly used to help predict the speed at which epidemics of contagious disease are likely to spread. Mr Gladwell showed how its principles could be widely applied, to the spectacular explosion in mobile phone usage, for instance, and the fall in New York's crime rate in the early 1990s.

The "tipping point", in Mr Gladwell's view, is the moment when an unfamiliar idea, fashion, or form of behaviour, crosses some imperceptible threshold and suddenly spreads with the speed of a bush fire. Beforehand, lots of things may be moving in that direction, unnoticed, below the surface, but it is only when they come together in a particular way and at a particular time that the tipping starts.

Lord Bell's comforting thesis for the Tories is that British politics is now close to just such a tipping point. The argument goes something like this. The government's opinion-poll lead seems impregnable. Two weeks' pounding by the newspapers on Cheriegate, the story of Mrs Blair's connection with a crook, did not shift it. But something is going on beneath those resilient figures. People dislike the government more and more, and it is losing the reputation for competence it so painstakingly acquired during its first term.

Mr Blair does indeed seem increasingly unpopular. In the course of last year, according to a recent MORI poll, his personal popularity rating has tumbled from a positive 12% to a negative 16%. In a little festive jollity organised by BBC radio's *Today* programme, listeners so overwhelmingly nominated Tony Blair as the person they would most like to send into exile that, for the sake of suspense, he had to be excluded from the final poll—which was subsequently topped by his wife, effortlessly pushing a notorious Muslim fanatic and suspected al-Qaeda supporter, Sheikh Abu Hamza, into second place. Mr Blair remains his party's greatest asset, but if these polls are telling us anything, it is that he may be a wasting one.

Behind Mr Blair's declining approval ratings is a growing loss of confidence in his government. From the tardy and timorous response to the pensions mess to the drift and confusion which marked its handling of the firemen's strike, the government no longer looks sure-footed. The housing market looks about to crash, and there is palpable unease about the government's handling of the economy. According to the MORI survey that revealed Mr Blair's unpopularity, 44% of people now think the government's policies

are weakening the economy against 38% who say they are helping it. Other polls suggest that people are less and less hopeful that the huge increases in spending on public services will bring about any real improvement in health care and schools. The news that a 20% cash boost to hospitals over the past three years has resulted in a rise in treatments completed by consultants of only 1.6% demonstrates just how well-founded those fears are.

Hubble bubble

So far, so good, then, for the Tories' tipping point theory. Although there are still relatively few outward signs that people are getting ready to dump the government, popular resentment is seething and bubbling away just below the surface. It could come bursting out at any moment. And when it does, Mr Duncan Smith has convinced himself, the current certainties about Labour's hegemony will seem ridiculous.

He may be right. It does seem that opinion will continue to shift as more people conclude that the government's expensive bid to transform public services is doomed to fail. But there is less evidence to support the notion that the Tories will benefit from this groundswell of disillusion. Sullen voter apathy seems a more likely consequence than a Tory renaissance.

The “tipping point” may have more than one contemporary political application. Mr Duncan Smith believes that since his widely-ridiculed “unite or die” *démarche* a couple of months ago, his normally fractious MPs have found new purpose and discipline. Nobody else does. The Tory party is itself a cauldron of resentments seething and bubbling below the surface. The conviction that Mr Duncan Smith is not up to the job, which has been deepened by his latest gyrations over tax-cuts, is now almost universal. Mr Duncan Smith's own tipping point is likely to come sooner than the one he hopes will save him.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Luxury cars

Is one Rolls-Royce ever enough?

Jan 2nd 2003 | DETROIT AND LONDON
From The Economist print edition

The world's car companies are betting on a surge in sales of super-luxury vehicles. It is a huge gamble

THIS week, Rolls-Royce unveiled the much-heralded RR01. The world's longest (unstretched) car at 19 feet (5.8 metres) is yours for at least $250,000—depending on what customised features you want. Each car comes with a cigar humidor, rear doors with touch-sensitive handles to ease life for the chauffeur opening them, built-in umbrella stands and customised luggage that fits snugly into the boot.

The car's huge 6.75 litre, V12 engine is made in Munich by BMW, which bought the rights—effective in 2003—to the Rolls-Royce name a few years ago. But the aluminium body is built and fitted out in England by craftsmen hired mostly from the luxury-yacht industry at a new factory in Sussex. BMW hopes to sell 1,000 vehicles a year, 40% in America, 30% in Asia and the Middle East, and 30% elsewhere.

BMW is not the only car firm investing a fortune in developing “super-luxury” cars (ie, hand-built and costing at least $150,000). Despite gloom and over-capacity in much of the car market, and the devastation wrought on the wealth of many potential customers by the bursting of the stockmarket bubble, manufacturers are convinced there are pots of gold to be made at the pinnacle of the market.

For the first time the Detroit Auto Show, opening on January 5th, will have a special display area devoted exclusively to super-luxury vehicles. At the Paris motor show last September, there was a parade of new products aimed at the most affluent customers. Ferrari showed off its new 200-mph (322-kmph) Enzo, a $700,000 supercar named after the firm's famed founder. Bentley unwrapped its own sports coupé, the $150,000 Continental GT. DaimlerChrysler is offering the soon-to-launch Maybach for $300,000. Lamborghini recently confirmed that it would build the LB-140, the long-rumoured “Baby Murc”, a slightly shrunken version of the 550-horsepower Murcielago. Aston Martin is working on a new high-performance two-seater, codenamed AM305.

This adds up to a remarkable acceleration of innovation in the hitherto sedate market for super-luxury. Traditionally, change has come at a glacial pace. Vehicles such as the venerable Rolls-Royce Corniche went for decades with little more than a modest facelift. And sales were tiny: around 7,000 a year at the peak of the last economic cycle, barely one-hundredth of 1% of total global car sales.

But recently, the big global car manufacturers, led by Volkswagen and DaimlerChrysler, have become convinced that the main reason why super-luxury cars have not sold in greater numbers is that there was such a narrow range of them on offer. If you did not fancy a Bentley or a Rolls-Royce, all you were left to

choose from were the likes of Lamborghinis and Ferraris. To the wealthy customer, that is quite a limited choice. As a result, the firms have been buying up the best known brands and creating new models, to give the wealthy more motors to pick from.

The fact is that the super-luxury market is “not about transportation”, says VW's new chairman, Bernd Pischetsrieder. Think of it as more akin to jewellery and other essentials of the affluent lifestyle. “If you provide enough temptation, there is an endless number of customers who will queue up,” Mr Pischetsrieder contends.

Susan Jacobs, a luxury-car dealer in New Jersey, agrees that the segment had been stagnant because it was long starved of truly new and different products. And, as one Mercedes executive says, there are temptable customers at this end of the market: “We have customers in the Middle East who will buy up to 30 Maybachs at a time.” One for each wife, perhaps.

My other cars are Porsches

What alerted Mr Pischetsrieder and other industry executives to this (they hope) lucrative opportunity was the way that, in the late 1990s, many new models of Ferraris and Lamborghinis that were in short supply changed hands, nearly new, at vast premiums to the list price. (Ferrari, the market leader, deliberately limits its sales to just over 4,000 sports cars a year, even though it has waiting lists of up to two years in key markets such as America.) Super-rich people were also offering dealers tens of thousands of dollars above the sticker price just to lay their hands quickly on sought-after models from the limited production runs of hand-built vehicles.

By offering many new varieties, and encouraging wealthy buyers to collect them all, car firms hope nearly to triple output to around 20,000 vehicles a year. Moreover, profits on a super-luxury car may exceed $20,000. Thanks to the growth of “sales incentives”, the profit per vehicle on mainstream cars is often as little as $300.

Developing the new cars is expensive. To revive Rolls-Royce, BMW has delivered both a more contemporary design and an upgrade for the brand's seriously outdated technology. Instead of trying to move Mercedes-Benz upmarket, DaimlerChrysler chose to start largely from scratch, explains Jürgen Hubbert, the board member in charge of passenger-car programmes. It resurrected a little-known brand from the past. Maybach will launch soon with two variations on a theme: the M57 and the M62 sedans, the latter said to be as long as the massive Ford Excursion sport utility vehicle (up to 6.2 metres, or 20 feet).

Ominously, this is an industry often driven by ego rather than hard economics. Once one firm entered the fray, the others may have felt obliged to follow suit, if only to save face. This seems particularly likely for the German marques, which have long been locked in a struggle for supremacy.

Cynics note that the assault on the top end of the market can be traced back to 1998 and the battle to buy the Rolls-Royce Motor Company from Vickers. This quickly degenerated into an angry bidding war between Volkswagen and BMW. In a Solomon-like solution, the firm's British nameplates were split asunder after a 70-year marriage. Rolls-Royce was sold to BMW, and Bentley (along with the original Rolls factory in Crewe) was sold to VW, whose outgoing chairman, Ferdinand Piëch, built up a portfolio of super-luxury brands. Grandson of the legendary Ferdinand Porsche, Mr Piëch bought Lamborghini—an Italian firm whose sleek Murcielago set a world speed record for a production car, averaging above 200 mph over 100 miles—and the reincarnation of the famous French firm, Bugatti, which is developing a $1m sports car powered by a 1,001-horsepower engine.

“The rich are different from you and me,” as Scott Fitzgerald famously observed. So perhaps their desire for gorgeous cars will survive falling share prices and the uncertain economic outlook. But at the very least, the car firms are making a huge gamble. Sales of other super-luxury goods—from clothes and jewels to mansions and private jets—have suffered from the recent economic troubles.

To meet even the most conservative forecasts on which the car manufacturers have based their investments, super-luxury sales would have to surge to a collective 17,000 vehicles annually, an increase of about 250%, by mid-decade. Despite the economic slowdown, there have been some encouraging signs. The Enzo, notes Ferrari's boss, Luca di Montezemolo, actually sold out before its official Paris preview, even though the Italian manufacturer had boosted the production run by nearly 15%. Perhaps anything is possible with customers whose marginal choice, as one industry executive puts it, is between

another “new Rolls this year or a swimming pool for the horses”.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Regulating the diamond trade

A crook's best friend

Jan 2nd 2003 | JOHANNESBURG
From The Economist print edition

A certification process is launched

JAMES BOND knows the trouble that “conflict diamonds” bring. In his latest film, “Die Another Day”, stones smuggled from African war zones fall into the hands of an evil genius. Life imitates art: in December, European intelligence agencies said that al-Qaeda terrorists had used diamonds to move financial resources secretly around the world. Rebels in African countries such as Sierra Leone, Liberia, Angola and the Democratic Republic of Congo have long traded diamonds, timber and other minerals to pay for their weaponry. Angola's rebel army, UNITA, earned hundreds of millions of dollars by selling stones to legal traders, such as the De Beers cartel. The war in Angola is now over, but the illicit diamond trade has not ended with it.

Efforts to stop the trade in conflict stones have had mixed effects. In the late 1990s United Nations sanctions on doing business with African rebel armies such as UNITA did stop De Beers buying, but other traders filled the gap. De Beers feared that controversy might scare off American shoppers, who buy the most stones. That was “a real threat to the diamond industry”, says a De Beers spokesman. A campaign by several non-governmental organisations against “blood diamonds” threatened to tarnish the image of the entire industry, because retailers could not tell buyers from where a stone originated.

So South Africa's government, the World Diamond Council and other interested groups have created a system of certificates, known as the Kimberley process, that is supposed to create a paper-trail from mine to store. Though it is voluntary, many other governments are supportive and De Beers, which controls roughly two-thirds of world diamond production, will trade only in certified stones. Ahead of the scheme's official launch on January 1st, over 50 countries had signed up.

Will this succeed where other efforts failed? Though it is a restriction on trade, the World Trade Organisation seems unlikely to block the process. Illicit dealing may decline somewhat anyway, now that wars in Sierra Leone and Angola have ended. In December the UN lifted its sanctions against UNITA. But big problems persist. De Beers may be happy to sit (for now) on its large stocks of diamonds without certificates of origin, but other vendors will still seek buyers, even if prices for such stones are lower. Many traders in India, China and Italy are well known for demanding no paperwork. Alex Yearsley of Global Witness, a group that helped to raise awareness about conflict diamonds, says that firms will “be a bit more careful with their invoices, but if you're determined you can get around this process”.

Even some diamonds with histories attached may not be trustworthy. Mr Bond's latest foe simply marketed his diamonds as coming from Iceland. In the real world it is up to governments to endorse the certificates, but cash-strapped civil servants in remote corners of West Africa will struggle to monitor diamond trades in their countries. Forgery and bribery are inevitable. Those now trying to oversee the global diamond industry from a tiny office in Johannesburg also face a daunting task: without reliable statistics on the business and with few staff they may struggle to do much more than remind buyers and sellers that the voluntary Kimberley process exists. That may be a poor second best; if only they could recruit 007.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Corporate debt

In the balance

Jan 2nd 2003
From The Economist print edition

How fast will American firms reduce their excessive borrowing?

JUST as Japanese firms did during their country's bubble in the 1980s, American firms spent the late 1990s borrowing up to their eyeballs. Once the bubble burst, Japanese firms continued to raise lots of debt, thus ensuring that the mess they were in got much worse, and remains horrid today (see article). Japanese corporate debt peaked only in 1995, five years after the Nikkei started its dizzying descent. Only in 1997 did debt begin to fall by much; and 13 years after the bubble popped, Japanese firms still have higher ratios of debt to equity than American firms. A growing number of Americans, having noticed the remarkable similarity between their bubble and the Japanese one, now fear that their firms' balance sheets will likewise continue to worsen, contributing to a prolonged economic slump in the world's biggest economy. Are they right to worry?

The borrowing binge by American firms during the bubble was a big reason why five of the eight biggest bankruptcies in the country's history, involving some $375 billion of assets, occurred last year. All things being equal, the more debt a firm has compared with its equity (ie, the more leveraged it is), the riskier it is. Unlike dividends, interest has to be paid, even if the economy sours or interest rates soar. In a bubble, that risk is disguised by inflated share prices, which make leverage appear lower and less threatening than it is.

Last autumn, in anticipation of worsening problems, overall spreads for investment-grade bonds rose, relative to Treasury bond yields, higher than they had ever done. The Merrill Lynch High Yield Index (ie, for “junk” bonds) rose to a spread of 12 percentage points over Treasuries. This, on the face of it, signalled a far worse outlook than was ever projected by Japan's famously inefficient capital markets. To take one by no means unique example, that 12-point spread over Treasuries is some 100 times the spread in 1997 on bonds issued by Chichibu Cement, a struggling firm with a lowly double-B rating, seven years after Japan's bubble burst.

It is still too soon to be certain, but these life-threatening interest rates may have brought matters to a head, helping to bankrupt the worst-offending firms and encouraging the rest to start shaping up. A fast-growing number of American firms have started to reduce debt. In telecoms, Sprint has sold its directories business to pay off debt, Verizon some of its access lines, and SBC stakes in subsidiaries. In electric utilities and power production, Mirant, Dominion, Duke Energy and CMS have all sold assets or issued equity. So has Tyco, a big, troubled conglomerate. Household International, a big financial firm, first raised some $900m of new equity, and then agreed to be taken over by HSBC, a large British-based bank. There would have been far more activity, except that managers at many firms have so far chafed at selling cheaply in a buyer's market.

Bond investors have of late been persuaded that many firms are now getting serious. Bonds issued by investment-grade firms have tightened against Treasuries by 80 basis points (hundredths of a percentage point) since October 15th, their widest level. This may not sound a lot, but is. Junk-bond spreads have also narrowed.

True, many balance sheets are still in poor shape. And though fewer firms are defaulting than were doing so or threatening to do so a few months ago, the ratio of upgrades to downgrades by Moody's, a credit-rating agency, continues to decline.

However, points out John Lonski, Moody's chief economist, net new borrowing by American firms has fallen sharply, as have repurchases of shares. Free cashflow—revenues that are not spent or distributed to shareholders—is rising sharply, not least because merger activity has been moribund. The result is more money that can be spent on cutting debts.

Overall, then, it does appear that a corner has been turned, and that the turning point came soon after spreads in the corporate-bond market peaked. And this may not be coincidental. Indeed, there are good reasons for thinking that America's sophisticated corporate-bond market may be what saves its firms from the fate of their Japanese counterparts.

Most corporate finance in Japan came from the country's banks, especially the big ones, which were in effect guaranteed by the government. (They still are, although that guarantee may be worth rather less now that the guarantor itself is up to its neck in debt.) With only a couple of important exceptions, big Japanese companies were not allowed to go bust. Interest rates on loans were generally low and rarely varied according to differences in the credit-worthiness of borrowers.

There are good reasons for thinking that America's sophisticated corporate-bond market may be what saves its firms from the fate of their Japanese counterparts

This indifference among Japanese creditors to the sorts of factors that so agitated investors in America's corporate bond market last autumn continued long after the bubble in stocks and land had popped: banks—and the government—did not want to let companies go bust. Thus they continued to lend, throwing good money after bad. Borrowing remained absurdly cheap even for the many firms that heartily deserved to die. Only in 1997 did credit spreads start to rise somewhat and become a bit more differentiated. But that was too little, too late.

Here is a positive thought, then, with which to start the new year. Just because America and Japan have each experienced a stockmarket bubble does not mean that their companies must suffer equally badly in the aftermath of the burst. Anyway, fingers crossed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese corporate restructuring

Picking losers

Jan 2nd 2003 | TOKYO
From The Economist print edition

Expectations are low for Japan's new Industrial Revitalisation Corporation

Get article background

A NEW year and more new measures to prop up Japan's dud companies. This time they take the form of an Industrial Revitalisation Corporation (IRC) to be set up by the government this spring.

Japan's government used to be lauded for its ability to “pick winners”. The ostensible mission of the IRC will be to pick which of the country's many debt-ridden corporate losers are worth saving. Likely candidates for a rescue are concentrated in the construction, retail and trading-house industries. But which firms qualify for aid from the IRC will depend on detailed criteria to be decided over the next couple of months.

According to preliminary guidelines issued in December, the IRC will try to revive such firms by buying a portion of their loans from banks, after which it will have three years to sort out each one. Restructuring plans, based on a broad, pre-set formula, will be drawn up by the IRC and by each firm's biggest creditor bank—which often helped get firms in trouble in the first place.

The IRC's role should not be to weed out the excess capacity stifling many industries, says Fumio Kyuma, who heads the ruling Liberal Democratic Party's (LDP) committee on the IRC. That, he says, should be left to individual ministries, which are now drawing up blueprints on how industries they oversee should look in the future.

Yoshimi Watanabe, an LDP politician who wants stricter rules for IRC rescues, argues that private-sector solutions using Japan's new bankruptcy law, loosely based on Chapter 11 of America's bankruptcy code, let too many firms live on, a higher proportion than in America. A strict IRC could kill off such zombies.

But Mr Watanabe fears that, as now envisaged, the IRC could prove just as lenient as the bankruptcy courts. With access to only ¥10 trillion ($84 billion) of public funds it would have to work with undercapitalised banks, which cannot afford the write-offs that good restructuring plans require. Though restructuring plans will have to be approved by an IRC committee of private-sector “experts”, there will be scope for interference by bureaucrats wanting to protect industries they oversee or by politicians lobbied by special interest groups.

Yasuhisa Shiozaki, another LDP politician, says that the IRC will work only if it acts as an intermediary that transfers loans from banks to corporate salvage specialists in the private sector. But, he notes, the body is named an industrial, not a corporate, revitalisation corporation. Sadly, he says, that suggests the government still believes in saving whole industries, rather than only those firms with genuine hope of revival.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Tyco

Not guilty, your honour

Jan 2nd 2003 | NEW YORK
From The Economist print edition

A new investigation finds no smoking gun

AS AN emblem of the excesses of American chief executives, Dennis Kozlowski, the dog-shaped-umbrella-stand-buying ex-boss of Tyco, is hard to top. But was Tyco a house of cards? Politicians, the press and traders betting on a sinking share price all seized on Mr Kozlowski's seemingly monstrous abuses of corporate expenses and Tyco's executive-loan scheme as proof of a wider accounting fraud at the firm. Yet so far, the evidence is thin. Indeed, the latest investigation into Tyco's accounting practices gives it a surprisingly clean bill of health.

Under Edward Breen, Mr Kozlowski's successor, Tyco brought in outside lawyers and accountants to comb through four years' worth of company records. The most common accusation is that Tyco used thousands of acquisitions to play accounting tricks that became the source of the firm's earnings growth. During the four years under investigation, Tyco paid $44 billion for more than 700 companies. The accountants reviewed $28 billion-worth of these purchases. On December 30th, Tyco filed a report with the Securities and Exchange Commission (SEC). Its unequivocal conclusion? “There was no significant or systemic fraud affecting the company's prior financial statements.”

Critics point out that Tyco's investigation lacked independence. But as the new broom, Mr Breen had a strong incentive to sweep away whatever dirt he uncovered. On December 30th, Tyco also filed its annual report for 2002. In compliance with new SEC rules, the accounts are certified personally by Mr Breen, and include an unqualified opinion by Tyco's auditors, PriceWaterhouseCoopers. In the present climate of scrutiny, it would take a recklessness bordering on insanity to perpetrate a cover-up at—of all places—Mr Kozlowski's old stomping ground.

The report does contain the odd titbit for those who have boosted their fortunes by helping to wreck Tyco's. It notes that Tyco's prior management “engaged in a pattern of aggressive accounting which, even when in accordance with Generally Accepted Accounting Principles, was intended to increase reported earnings”. But few, apart from the saintly Warren Buffett, boss of Berkshire Hathaway, did not indulge in such practices in the late 1990s. “Tyco's Internal Report Finds Extensive Accounting Tricks”, was the *Wall Street Journal*'s summary this week. Investors reacted by, er, sharply boosting the share price. Thanks mainly to a large telecoms-related write-off (and much smaller charges for prior earnings overstatements), Tyco reported a loss of over $9 billion last year. But Mr Breen forecasts reasonable earnings for 2003—not bad for a house of cards.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The theatre business

On with the show

Jan 2nd 2003
From The Economist print edition

Good news for the grand circle

AROUND the world a building boom is under way in new theatres, concert halls, opera houses and multi-purpose buildings for live shows. At their annual conference in New York last month, members of the International Society for the Performing Arts, many of whom build or manage theatres, were cheerful about today—though worried about tomorrow.

The two main theatre-planning consultancies say they have not been busier. Willem Brans, boss of Arts Resources International, is fielding two or three enquiries a month for feasibility studies and advising on many projects, including a $200m concert hall in Orange County, California. David Staples, managing director in Britain for Theatre Projects Consultants (TPC), says his firm has work worth $4 billion in America and another $1 billion elsewhere in planning, design and construction. He led a team that created Singapore's $400m cultural centre, which opened in October.

There is a global “rash” of new theatres and especially concert halls, says John Tusa, who runs Britain's Barbican Centre, but the fastest growth is in America. There, says Mr Brans, 70-80% of the money going into new building or refurbishment is from private donors. Orange County is building its new concert hall entirely with private gifts. That makes commercial success likelier. “These theatres are being built by sharp local businessmen who don't want to be made fools of,” says Mr Brans.

Usually, support from cities—inspired partly by civic pride—is crucial to attract donations. Michael Hardy, boss of a $340m performing arts centre in Miami, Florida, that will open in 2005, says, “We are the economic capital of Latin America, and our aim is to become the cultural capital too.” Cities also think the arts help to lure relocating firms, though this much-touted effect has never been proven.

The quality of new theatres is better than ever before, boasts Mr Brans, largely thanks to the increasing professionalism of theatre planning and acoustic engineering. Theatres are no longer designed with a democratic absence of galleries but with rotten acoustics and sightlines, in flat fan-shaped boxes of concrete. TPC now makes increasing use of “multiform” halls, using a device, invented by Boeing to move aircraft engines on a cushion of air, to shift walls and seats.

Yet theatre-building is the sort of thing people do at the end of a golden era (as at the turn of the 20th century) when confidence is high and wealth is ample. Now, tax revenues are weak and wealthy donors less wealthy. The curtain may be about to fall, at least for an intermission.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Face value

Jolly boating weather

Jan 2nd 2003
From The Economist print edition

All may be plain sailing for Larry Ellison's yacht in the America's Cup. Less so for his Oracle Corporation

IT HAS become something of a maritime tradition for Larry Ellison's boating rivals to drop their trousers and moon the billionaire when they pass him at sea. Opportunities for such cheeky salutes have been rare during the present America's Cup contest. Mr Ellison has not been an active member of the crew; and his yacht has every chance of winning the cup, having already seen off several vessels, including one part-sponsored by the Oracle founder's arch enemy, Microsoft.

In the less glamorous world of business, however, the recent storms in the technology sector have battered Mr Ellison's plans to make Oracle the equal of Microsoft, and ultimately to surpass it. Microsoft's market capitalisation is down by 55% to $276 billion from a peak of $615 billion in December 1999, but it remains the world's most valuable firm. Oracle's market value has dropped by 78% from $263 billion in September 2000 to $59 billion. As a result, at least half of the 58-year-old's long-term plan to win the America's Cup and then retire has been put on hold.

Mr Ellison's many critics deplore the tycoon's absence from Oracle's helm at such a crucial time. He should be talking to customers and employees instead of messing about in boats. In recent years, they complain, the firm he founded 25 years ago to sell a new type of corporate database has become little more than a means of financing his personal dreams—such as flying (fighter) aircraft, building a $200m Japanese imperial-style village in Silicon Valley and, yes, winning the America's Cup.

This playboy image has always been a caricature, albeit one that was easy to paint, partly because Mr Ellison has done so much to create it. But it takes no more than a few moments with Mr Ellison to know that his ambitions still extend far beyond spending or sailing prizes. He still wants nothing less than to re-invent the way firms build their information technology (IT) systems and to make Oracle the world's largest software firm.

Such hyperbole often meets with a sceptical response. After all, when Oracle released the “e-business suite” in May 2000, its supposed killer idea turned out to be riddled with programming errors. But with most of the bugs now fixed and a promising new program giving “daily business intelligence” now added, Mr Ellison's vision deserves a closer look. It raises a question now facing many managers: can IT investments be made to pay?

Mr Ellison sees himself as a modern day Henry Ford, and the present IT industry as akin to the automobile industry before the original Ford invented the assembly line. Then, cars were built in several

different shops, between which they were dragged: one for paint, another for the engine, and so on. Just as Ford transformed efficiency when he scrapped the sheds, so too “IT has got to become an end-to-end flow of information, just like an end-to-end flow of product along an assembly line,” says Mr Ellison.

What this means in practice is that Oracle will gladly replace all the different software systems now used by a typical firm—many of which cannot talk to each other without further heavy spending—with its all-singing, all-dancing e-business suite.

The present piecemeal approach to IT often means that corporate information is scattered in hundreds of databases. Finding simple facts, such as the current number of employees, can take weeks, by which time the information is often obsolete. Mr Ellison argues that the e-business suite standardises data, putting it in one database where it can be manipulated by a complete and integrated suite of applications. Only with such a “simplified IT architecture”, to use the term of art, can firms automate their business processes and react quickly to changes. Indeed, Mr Ellison boasts that his enthusiasm for being a chief executive has been rekindled by the power he gained as a result of deploying the e-business suite within Oracle and thus gaining better, more timely information on which to base decisions.

Where will the trade winds blow?

Eating its own dog food, to use an unappetising Silicon Valley metaphor, has agreed with Oracle extremely well, Mr Ellison claims. Central to the firm's massive advertising campaign is the claim that Oracle's IT expenses have fallen by half, saving over $1 billion in annual costs. Some critics have challenged these numbers, claiming that many of the savings might have equally been achieved by ordinary cost-cutting. Yet several notable firms have bought into Mr Ellison's vision, including General Electric and Alcoa. The next year or so will reveal whether these firms are a few brave exceptions or the leaders of the mass neo-Fordist IT revolution predicted by Mr Ellison.

Sceptics point out that, while a single integrated software architecture may be perfect for Oracle, not many firms are, or want to be, as centralised as Oracle—particularly when their local markets differ markedly, unlike Oracle's. They may also want to have the best available software in each of their businesses, bought from the leading supplier in that niche, rather than wait for Oracle to catch up with the best by adding features to its software. And they may not like to become dependent on a single supplier, particularly one run by Mr Ellison. However, as Mr Ellison rightly observes, buying the best may cost far more.

The jury is still out. Because of the publicity given to the e-business suite's initial glitches, and because IT has been low on the list of managerial priorities recently, most firms have been slow to adopt Oracle's offering. Now, IT is once more rising up the managerial agenda. This is crunch time for Mr Ellison's IT vision. The longer he spends at sea, the greater the risk that his business rivals will soon be mooning as they sail by.

Disclosure: Matthew Symonds, our former IT writer and now Bagehot, is working on a book about Larry Ellison, with the subject's co-operation. Matthew recused himself from all coverage of Oracle and its markets when that project began, and has played no part in writing this article.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Diasporas

A world of exiles

Jan 2nd 2003
From The Economist print edition

Emigrés have long sought to bring pressure to bear on governments in their adopted countries. Now their influence is being felt at home too

WHY does Macedonia have no embassy in Australia? Why might a mountain in northern Greece soon be disfigured by an image of Alexander the Great 73 metres (nearly 240 feet) high? Who paid for the bloody war between Ethiopia and Eritrea? How did Croatia succeed in winning early international recognition as an independent country? And why do Mexican candidates for political office campaign in the United States?

The short answer to each of these questions is a diaspora—a community of people living outside their country of origin. Macedonia has no embassy in Australia because Greeks think the former Yugoslav republic that calls itself Macedonia has purloined the name from them, and the Greek vote counts for a lot in Australia. So, as a sop to local Greeks outraged by its decision to recognise the upstart Macedonia, the Australian government has not yet allowed it to open an embassy in Canberra.

The case of the missing embassy is an extreme, but typical, example of how diasporas have long exerted their influence: they have lobbied in their adopted countries for policies favourable to the homeland. But now something new is taking place: diasporas are increasingly exerting influence on the politics of the countries they have physically, but not emotionally, abandoned. An example of this trend is the case of the monumental Alexander. The Greek diaspora is so proud of Alexander the Great, whose Macedonian kingdom encompassed what are now parts of northern Greece, and so keen to establish him as Greek, that it wants to carve his effigy on a cliff face on Mount Kerdyllion. The Greek authorities in Athens are horrified, but the Alexander the Great Foundation, based in Chicago, is eager to get chipping, and says its members will cover the $45m cost. Grotesque as it may consider the scheme—the monument would be four times the size of the American presidents carved on Mount Rushmore—the Greek government may yield. It is to rich Greek-Americans that it turns when it wants to promote its interests in America.

Similarly, it was to its citizens abroad that Eritrea looked when it decided to wage a pointless border war between 1998 and 2000. Small, poor and just six years old, the country was in no position to fight its much bigger neighbour, Ethiopia. But of Eritrea's 3.8m people, about 333,000 were émigrés and, astonishingly, the government was able to tax their personal income at 2% a year. This helped to finance, and thus to perpetuate, a terrible war.

Croats abroad also did their bit for their country, both before and after independence in 1991. In the early 1990s, not long after European communism had collapsed but before the Yugoslav federation had begun to disintegrate, the cry went up in Croatia for Croats of the diaspora to come home. Some did, returning to fight in the war that broke out in 1991. Other Croats abroad raised money: as much as $30m had been mustered by 1991. Meanwhile, Croat exiles

Eritrea was able to tax its émigrés—nearly a tenth of the

were lobbying hard in Germany, which in turn bounced the European Union into early recognition of the new state. Fiercely nationalist exiles forked out at least $4m for the 1990 election campaign of Franjo Tudjman, Croatia's arch-nationalist president, and in return were awarded representation in parliament in 1992, by which time the country had won its independence. Twelve out of the 120 seats were allotted to diaspora Croats, who cast their votes in consulates abroad, or in community centres, clubs and churches designated by the authorities in Zagreb. By contrast, only seven seats were set aside for Croatia's ethnic minorities.

population—at 2% of their annual income. This helped to finance its awful war with Ethiopia

Since 1996, Mexicans abroad have also had the right to vote in national elections, although the legislation to allow them to do so without coming home has yet to be passed. Still, with 10.8m citizens of voting age out of the country, many political candidates reckon it is worth their while to campaign in the United States, where 99% of the absentees live. Even if just a small proportion comes back on polling day, that may be enough to tip an election.

The diaspora's new right to vote, however theoretical it remains, was a right reluctantly given. The Institutional Revolutionary Party (PRI), which ruled Mexico uninterruptedly for over 60 years, thought expatriate Mexicans were unlikely to support it. It was probably right. Although the diaspora was not composed of political exiles implacably hostile to the government of the country they had left, the émigrés were probably sophisticated enough to dislike the PRI's self-serving policies. Moreover, nationalism, which so often makes exiles sympathetic to the government back home, was hardly an issue in Mexican elections.

As a rule of thumb, émigrés are nationalists

As a rule of thumb, though, émigrés are nationalists, even though they may at the same time be loyal citizens of their adopted country (96% of Australia's Croats are naturalised, and not known as lukewarm in their Ozziness). Perhaps the strength of nationalist feeling has something to do with feelings of guilt among those fortunate enough to live abroad, especially when the home country is under some kind of threat. Perhaps it has something to do with not having to live with the consequences of nationalism *pur et dur*. Perhaps it is because exile sharpens the sense of the country left behind. Issues may simply seem clearer from afar. In any event, absence certainly seems to make the heart grow fonder—and fierier.

If you doubt that, just imagine what would happen in Ireland, north and south of the border, if Irish-Americans were allowed to vote in Ireland's or Ulster's elections. Irish-Americans tend to be strong supporters of republicanism, and in the 1970s and 1980s they raised huge amounts of money for republican terrorist groups such as the IRA. Or imagine what would happen to Cuba's politics if the exiles of southern Florida could vote as well as rant.

Wired and wonderful

In the past, absence also made the power of the diaspora grow weaker. Scatter a few million émigrés across the globe, and, being everywhere in a minority, they are weak. They are influential only where they are concentrated, as, say, Swedes are in southern Finland; or where they are especially well-organised, as Jews are in the United States and Armenians are in France. That is certainly the way it used to be. But nowadays jet planes, rapid communication and in particular the internet have enabled dispersed exiles to come together cheaply and effectively for the first time in history.

Dispersed exiles can now come together cheaply and effectively, for the first time in history

This change is most evident not among the best known, older-established diasporas but among the younger ones. Thus the influence on China of the huge community of overseas Chinese is, so far at least, chiefly felt through commerce and investment; it is not yet directly political. Similarly, émigré Indians have yet to exert much out-of-body-politic influence on the homeland. Expatriate Scots count for little in Scotland. And, though passionately interested in Israel and ready to support it financially, the Jewish diaspora—the first to be given the name, after the Babylonian captivity—is probably more influential outside than within the Jewish state.

Look instead at the Tamils, and in particular at the long war fought by the Tamil Tigers against the government of Sri Lanka. Superficially, this looks like a classic struggle between an oppressed group trying to win the right to secede and an intransigent government unwilling to let it. The Tamils have

indeed been hard done by in the past, and Sri Lanka's government forces have committed their share of atrocities. The guerrillas have a skilful leader, some useful exiles abroad and foreign friends who lend support. Such has been the pattern often enough in struggles elsewhere—as, for instance, when the United States wanted to break away from Britain.

But the Sri Lankan civil war has not been a standard affair. For a start, it has been unusually brutal: 65,000 lives have been lost. The Tigers have ruthlessly exploited not just child soldiers but also suicide bombers. And they have done so for most of the past 19 years with the support of a generous community of exiles. Some 60m Tamils live in India, and Sri Lanka's politics have on at least one occasion fatefully affected India's: Rajiv Gandhi, a former prime minister of India, was assassinated by a Tamil suicide bomber in 1991 in retribution for India's involvement in Sri Lanka's civil war. But the truly Sri Lankan Tamil diaspora lies not in India but in Europe and North America. In 2001 the United Nations put the number of Tamil refugees abroad at 817,000. Taking into account those with citizenship of other countries, the total may be even bigger.

Many are poor, but a glance at the *Tamil Guardian*—"a weekly update for the global Tamil community"—suggests that the diaspora includes many others who are educated, prosperous and committed to the homeland. A broadsheet, it reprints serious articles from such papers as the *New York Times*, as well as covering the politics of Sri Lanka and the sporting and cultural activities of the diaspora; the Tigers receive uncritically fulsome coverage. Nor does it appear to want for advertisements.

Expatriate Tamils do not rely on their newspaper alone. Anything judged to be of interest to the community—a critical article in *The Economist*, for instance—may be circulated on the internet among Tamil émigrés, particularly academics, and a flood of rather similar protests may ensue. A demonstration can be similarly conjured up if necessary, as when, in 2001, Sri Lanka appointed as high commissioner to Australia a general accused of brutality.

Both through voluntary contributions and through extortion, the diaspora has been used to help pay for the Tigers' long military campaign, which involves boats and naval forces as well as rockets, missiles and the usual paraphernalia required by soldiers—plus the cyanide pills that all Tigers are sworn to swallow if captured. At the same time, the diaspora has given succour to the exiled leadership, whose main base was for decades in London.

Second thoughts from abroad

If for many years the diaspora helped to sustain its side of Sri Lanka's vicious war, all the while condoning rather than condemning Tamil atrocities, so it has recently started to exercise a more benign influence. A few years ago, America, Britain and India all decided that the Tigers were not an entirely wholesome liberation group, and took steps to declare them terrorists instead; Britain proscribed them in February 2001. The disconcerted diaspora began to close its wallet.

Then came September 11th 2001, followed by a string of hideous suicide bombings in Israel, and the diaspora realised that the Tigers' record of 150 or more such bombings did not put them in good company. It was time to call a halt. A ceasefire was signed in December 2001 and talks have since been held in Thailand and Norway. Unexpectedly, the Tigers' leaders have even dropped their insistence on a completely independent homeland, saying they will settle for "substantial autonomy" instead. The outlook is now hopeful. For this, the diaspora can take some credit.

Arrivederci, Buenos Aires

With luck, the Tamil diaspora will soon be called upon to perform a more traditional role, that of helping to pay for the development of their homeland. Some diasporas are poorer than the people they left behind: so impoverished are the 537,000 Argentines of Italian origin that regions of Italy like the Veneto have organised "emigrant re-entry projects" to try to find jobs for those who want to come home. Most exile groups, however, are relatively well off. Even refugees who have fled their country with little or nothing tend either to go home eventually or to make good in a new country. It is largely the prosperity of emigrants, combined with their levels of education, that gives them their influence back home. All in all, émigrés of one kind or another send about $100 billion home each year through official channels, 60% of it to poor countries, which may receive another $15 billion unofficially.

Much of this money is sent by underpaid Filipinas in Asia or exploited Bangladeshis in the Gulf. Yet exiles' earnings may well be higher than those at home, sometimes much higher, thanks not only to wage differentials but also to their qualifications: perhaps a third of highly educated Ghanaians live abroad, and three-quarters of Jamaica's population with higher education can be found in the United States alone. El Salvador values its emigrants' remittances ($1.75 billion in 2000) so much that it has made provision for legal aid in the United States to those of its citizens who want to claim or prolong political asylum.

Émigrés of one kind or another send about $100 billion home each year through official channels

Most poor countries are now resigned to losing their exiles physically, but that does not mean they cannot get hold of some of their money, or their expertise. Increasingly, this is an organised endeavour. So, for example, if you had been flying into Accra on July 22nd 2001, you might well have been going to a Ghana Homecoming Summit, organised by the country's Investment Promotion Centre to harness the skills of the Ghanaian diaspora and get it to cough up even more than the $300m-400m that it already sends home each year.

Why should it? Leaving aside sentimental considerations, one inducement is increasingly frequently offered: in return for money, voting rights. Apart from Mexico, Croatia and Eritrea, Armenia and India have also promised them. Filipinos would like them. Turkey, like Eritrea and Mexico, has amended its constitution to give them, but Germany, where the Turkish diaspora is heavily concentrated, is not keen to have foreign elections held on its soil.

Other countries have found other ways of exploiting their expatriates' political energies. Eritrea is one of the most advanced, perhaps because about 90% of eligible Eritreans abroad voted in the 1993 referendum on independence. Diaspora Eritreans then helped to draft the constitution, which guarantees them voting rights in future elections.

An alternative is to bring the exiles home in person. Turkey's Islamist party, now in government, has parachuted diaspora leaders into safe electoral seats in Turkey to reward them for fund-raising abroad. Afghanistan has pondered putting its ex-king back on the throne. Bulgaria has turned its ex-monarch into a prime minister. The Balts have been émigré importers on an almost industrial scale. Since becoming independent in 1991, Estonia has recruited from the diaspora two foreign ministers and a defence minister, plus lots of civil servants, especially in the foreign ministry. Latvia's popular president was brought back from Canada. It has also had the services of an American-Latvian defence minister, a bunch of members of parliament and a handful of diplomats, all mustered from the ranks of its émigrés. Lithuania's huge diaspora has supplied it with a president, the current chief of general staff (both Lithuanian-Americans) and several historians, novelists and poets. Unlike most expatriate Balts, Lithuania's are not all fierce nationalists.

The diaspora's influence is not always welcomed. Some exiles are simply mistrusted, especially if they were abroad when the going was hard. Thus Thabo Mbeki and those of his colleagues who struggled against apartheid from outside South Africa do not aways command the respect of those who stayed and fought it from within. These exiles, though, were more like political exiles of the conventional kind—the enemies of English monarchs who plotted from France, the Cubans who launched the Bay of Pigs invasion from the United States, Russian revolutionaries who wandered Europe to escape the tsar, and so on. Diaspora exiles are different: their motives for leaving are often economic as much as political, and many have no intention of going home.

Home and away, all at once

Still, they can be a pain in the domestic neck. Kosovo's ethnic-Albanian émigrés helped to pay for and arm the guerrillas who proved crucial in NATO's war to rid Kosovo of its Serb oppressors. But those same émigrés, many of them left-wing in ideology and criminal in their connections, were less welcome when the time came to build the peace. Similarly, Albania's diaspora, smaller and on the whole right-wing, disastrously backed Sali Berisha, until the pyramid schemes that briefly beguiled his countrymen came crashing down. The Turks of northern Cyprus are not always convinced that the Turkish-Cypriot community in London, almost as numerous, is lobbying for the objectives they really seek.

Since September 11th, diasporas have come under new scrutiny to see whether they harbour or breed terrorists. They were already the object of growing interest among academics; and think-tanks such as the Rand Corporation in California had issued warnings that some diasporas might become fifth columns for hostile governments. Yet the influence of émigrés can be exaggerated. Eva Ostergaard-Nielsen, of the

London School of Economics, points out that diasporas seldom make a government adopt a policy unless that policy is also in the country's national interest. But they do undoubtedly, and increasingly, mingle homeland interests with those of their adopted country, and carry their own concerns back home. As Tip O'Neill, an American politician of the old school, once said, “All politics is local.” Now more than ever.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Investing

The Foresight saga, continued

Jan 2nd 2003
From The Economist print edition

Shares have had their worst year for decades. Interest rates are close to record lows. Where should you invest?

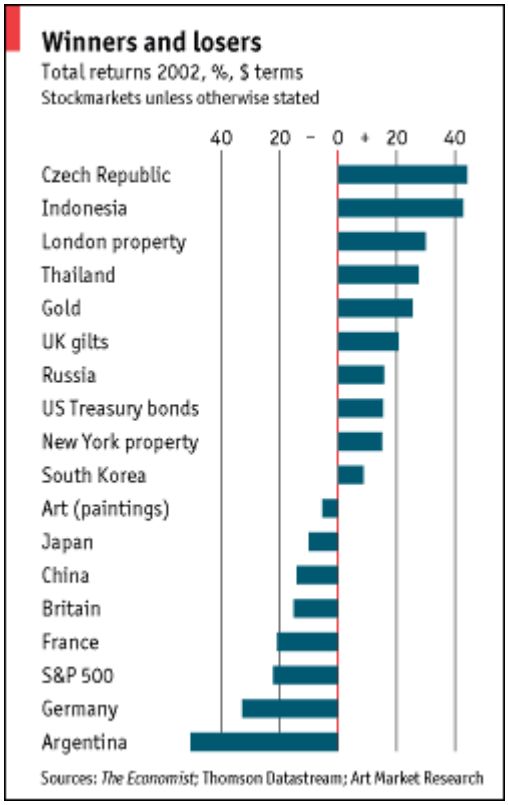
STOCKMARKETS fell for the third year running in 2002. Measured by the decline in the ratio of equity wealth to GDP, the current bear market is the deepest in history. Yet not all investors have lost their shirts. Remember Felicity Foresight? In December 1999 *The Economist* revealed how this little-known but brilliant investor had used an infallible investment strategy to become the world's richest person. Her secret? Perfect foresight.

When Ms Foresight was born in America in January 1900, her parents invested $1 on her behalf in a basket of shares. If it had been left there it would now be worth about $9,000. But Felicity reckoned she could do much better. Discovering at an early age that she could foresee the performance of financial markets perfectly, she would predict at the beginning of each year which asset around the world would bring the highest total dollar return (income plus capital gain) over the following 12 months. She would put all her wealth into that asset, and reinvest her income, before making a new forecast and shifting her money the following January.

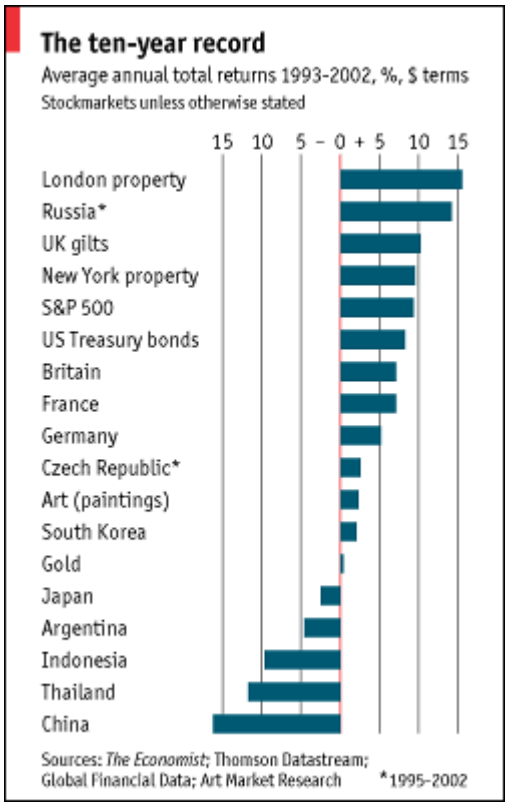
By her 100th birthday Ms Foresight had turned her initial $1 into an amazing $1.3 quadrillion—ie, 13 followed by 14 noughts—even after deducting dealing costs and taxes. Since then, despite the three-year bear market, she has enjoyed a post-tax average annual return of 29% thanks to some canny selections (Israeli, Russian and Czech shares in succession). Her nest-egg is now $2.7 quadrillion. Had she not had dealing costs and taxes to pay, she would, thanks to the effects of compounding, be worth an astonishing $27.5 quintillion (ignoring the fact that no market in the world is big enough to absorb such wealth).

In 2002, when S&P 500 shares yielded a total loss (including dividends) of 22%, Felicity enjoyed a 44% dollar return on her Czech shares. In theory, she could have made an even heftier profit in Pakistan, but she limits herself to stockmarkets covered in the back pages of *The Economist*. Gold, up 26% as investors sought a safe haven in an uncertain world, and London residential property (up by over 30% including an assumed net rental yield of 4%) would also have produced handsome rewards (see chart). Indeed, *The Economist*'s global house-price indices suggest that, once rental income is included, housing in most countries (apart from Germany and Japan) yielded double-digit returns last year.

At the other extreme, Argentine shares saw the biggest drop. Among developed markets German shares fared worst, with a 33% dollar loss, even though the euro rose by 18% against the dollar.



During Ms Foresight's 103 years, American shares have outperformed all other assets, returning 9.3% on average since 1900 compared with 4.8% on long-term Treasury bonds. Gold has yielded a dismal 2.8%, even less than the 4.1% return on cash (measured by the yield on American Treasury bills). Over the past ten years, however, the main equity markets have offered a lower return than either property or British government bonds (see chart). The best ten-year investment in our portfolio was London residential property with a total dollar return of 16%, well above the 9% earned on American stocks.



Despite the recent spurt in its price, gold's long-term performance has been lacklustre, offering a ten-year average return of only 0.4%. But the worst investment of all has been Chinese equities. China may be the fastest growing big economy, with massive potential, yet Chinese shares have suffered an average annual loss of 16%. Emerging stockmarkets more broadly have proved a poor bet over the decade, even though in 14 of the past 15 years one of these markets has topped the global investment league. What goes up has then usually tumbled down.

This is where Henry Hindsight, an old flame of Felicity's, has been badly caught out. He invests each January in the previous year's best-performing asset. Henry is like a typical small investor who tends to follow fashion, buying East Asian shares or internet shares in the 1990s after they had already risen sharply—and usually just before they began to slide. Felicity's best prediction was that marriage to Henry would never work.

Future imperfect

What is Felicity's hot tip for 2003? Naturally, she is not saying. However, she has hinted that she is ignoring the advice of most American analysts, who reckon, on average, that the S&P 500 will gain 20% by the end of 2003. After all, share prices are still far from cheap. In previous bear markets equities have always undershot before staging a full recovery; this time valuations have remained well above their long-term average. The price/earnings (p/e) ratio for the S&P 500 using historic reported profits is currently around 30, compared with a 50-year average of 16 and lows of ten or less in previous bear markets. Even if forecast profits are used to estimate earnings, the p/e ratio still looks high.

Moreover, analysts' consensus forecast of a 15% rise in American corporate profits in 2003 is almost certainly far too high, given that nominal GDP is likely to grow by only 4%. Markets were cheered by the upward revision of America's third-quarter GDP growth to 4% at an annual rate. However, a deeper delve into the figures shows that corporate profits actually fell by 7%. Even in a recovering economy, excess capacity and weak pricing power continue to squeeze profits.

Even if the American economy avoids another recession in 2003, real GDP growth is likely to remain below trend for a prolonged period because the large debts of firms and consumers will cramp spending.

If so, the output gap (the gap between actual and potential GDP) will remain large, pushing inflation lower. Inflation is already low, with the GDP deflator rising by only 0.8% in the past 12 months. In the non-financial corporate sector prices have fallen by 1.2% in the past year. The Fed has now woken up to the risks, but even if full-blown deflation is avoided, the pace of growth in nominal income—and hence profits—will be sluggish for some time.

If Ms Foresight believes that American share prices could fall for a fourth year—the longest such decline since the Great Depression—where might she be investing? Interest rates of only 1% on bank deposits are hardly enticing. Long-term government bonds look attractive if you expect inflation and interest rates to fall further, but with bond yields already near historic lows, potential gains are limited.

Henry Hindsight's decision is much easier to predict. He is ploughing all his money into Czech shares, gold and residential property. But to Felicity's experienced eye many housing markets, from London to Washington to Sydney, may look horribly bubble-like.

Asked whether she still favours emerging markets, the old lady smiles coyly. According to the Bank Credit Analyst, a Canadian research firm, emerging stockmarket valuations are currently at their cheapest during the 15 years for which figures are available, offering a p/e ratio of nine compared with a long-term average of 15.

Whatever happens this year, Felicity will strike lucky again. But sooner or later her run of double-digit returns may come to an end. In a world of near-zero inflation, where stockmarkets in different countries are moving ever closer in step and where risk and uncertainty are on the rise, the returns that Felicity is accustomed to will be elusive. She would be wise to recall 1931, when the best performing asset was cash, offering 1% interest.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Exchange rates

Time for europhoria?

Jan 2nd 2003
From The Economist print edition

The euro is quietly making a comeback

FOR most of its four-year existence, the euro has been a sickly currency. But in 2002 the weakling suddenly gained some muscles and climbed by 18% against the dollar. On December 31st the euro briefly broke through $1.05, its highest for three years and 27% above its low in October 2000.

Many analysts expect the euro to clamber higher in 2003. UBS Warburg reckons it will hit $1.15 by the end of the year. The euro's past weakness was widely blamed on the euro area's sluggish rate of growth compared with the dynamic American economy. Yet the currency's rebound hardly reflects an economic revival. Growth in the euro area is again forecast to lag behind that in the United States in 2003.

The euro's bounce is largely the flipside of a weak dollar which has been hit by worries about America's huge current-account deficit and uncertainties about a war with Iraq. Foreign investors have also woken up to the fact that corporate America is less profitable than they thought.

Most of the euro zone's economic growth over the past year has come from net exports, while domestic demand has more or less stagnated. Some commentators fret that a rising euro could make firms uncompetitive and so further choke growth. But this ignores the fact that a stronger euro will bear down on inflation and so allow the European Central Bank (ECB) to cut interest rates more rapidly.

Since the ECB reduced rates by half a percentage point in early December, the euro has appreciated by another 2% in trade-weighted terms. According to one rule of thumb, a 2% rise in the euro exchange rate has broadly the same monetary effect as a quarter-point increase in interest rates.

For the world economy as a whole, a rise in the euro against the dollar will be beneficial if it helps to rebalance global demand. A weaker dollar will help to spur America's exports and so make its economic growth less dependent on consumer spending. In turn, a stronger euro could force the euro area to boost domestic demand, through both easier monetary policy and hastened structural reform. That, however, will happen only if (a big if) European policymakers respond correctly.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Wall Street settlement

Unclean slate

Jan 2nd 2003 | NEW YORK
From The Economist print edition

Why such a sweetheart deal should have investors howling for blood

ON DECEMBER 30th Piper Jaffray, one of two investment banks which had refused to join a settlement agreed between ten Wall Street firms and their regulators ten days before, gave in. The bank will add its $32.5m to a $1.4 billion pot. All the firms hope this will draw a line under investigations into the mis-selling of stock offerings during the technology boom. Thomas Weisel, a San Francisco investment boutique, is still negotiating.

The banks that have settled will pay $925m in fines, seemingly apportioned according to size, negotiating skills and the perceived degree of sin: Salomon Smith Barney, part of Citigroup, will hand over $300m. Some of the fine has been earmarked for investor restitution, although there is no agreement on how this will be done. The rest will be split between the three national regulators of the securities industry—the Securities & Exchange Commission, the National Association of Securities Dealers and the New York Stock Exchange—and state regulators.

In addition, the investment banks will contribute $457.5m to finance independent research firms over the next five years, and provide $85m to be spent on educating investors. The agreement also lays down guidelines on how in future the firms must ring-fence research from their investment-banking businesses.

It seems there was indecent haste to get a settlement signed before the end of the year, so that the banks could start 2003 with a clean slate. But the slate is hardly clean. The measures address merely a few symptoms of the grand malaise in investment banking and the bad practices that have crept in over the past decade. A thorough overhaul of the culture, rather than the rulebook, is necessary. And that probably requires some prosecutions of individuals—*pour encourager les autres*. The threatened prosecution of Jack Grubman, former star analyst at Salomon Smith Barney, was not enough.

AP

Spitzer barked, but didn't bite

Giving a sure sign that the worst is not over, Citigroup has said it will add $1.3 billion of new provisions at the end of the fourth quarter to meet the cost of the settlement, and matters related to it and the collapse of Enron, including private litigation by investors. Such pessimism is realistic, and also tax-efficient.

Trying to stamp out a few of the many conflicts of interest at these firms is not the answer. Wall Street has always had to manage such conflicts; the successful firms, by and large, have tended to do it better. Failure can often be punished by the market, as investors vote with their feet. However, it can be difficult in obscure areas, especially if they are unregulated. Recently some movements in the prices of credit derivatives have suggested that privileged information is leaking from banks involved in debt restructuring. What is the remedy, apart from hoping that banks will address the problem internally, for the sake of the market? A new political campaign by Eliot Spitzer, New York state's attorney-general, on behalf of investors in credit derivatives is scarcely probable.

The fines are unlikely to put more than a small dent in investment banks' business plans. There was a suggestion that the Americans should take a leaf out of the Japanese regulator's book and ban suspected firms from securities underwriting and related business for a fixed period. That would give competitors at least some chance of breaking into the Wall Street oligopoly. But it seems the regulators are wary of harming banks' profitability in today's uncertain market.

Mr Spitzer, who led the charge against the investment banks, has in the end not done his day job. His proper business is deciding whether or not to prosecute, given the available evidence. December's agreement, stitched together by regulators and banks, strongly suggests that the banks have a case to answer, and that institutions or individuals should be prosecuted. But no case has been brought. Shame. As a British judge said in 1923: “Justice should not only be done, but should manifestly and undoubtedly be seen to be done.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

South-East Asian debt

Caught up in court

Jan 2nd 2003 | BANGKOK, JAKARTA AND KUALA LUMPUR
From The Economist print edition

Legal and other hindrances to the clear-up of a region's bad loans

FIVE years after Asia's financial crisis, Danaharta, the government agency charged with cleaning up the bad debts of Malaysia's banks, is back at square one. In November the country's appeals court ruled that its powers to force restructuring without going through the courts were unconstitutional. Unless the federal court, Malaysia's highest, reverses the decision, it may prompt a new wave of time-consuming lawsuits.

Such suits, brought by jilted banks and recalcitrant borrowers, had delayed debt clean-ups in Malaysia, Thailand and Indonesia following the 1997-98 crash. One Thai industrialist filed more than 20 in an attempt to hold on to his businesses. In order to speed the return of disputed assets to productive use, all three countries created state-owned asset-management companies, which were granted sweeping powers to bypass the courts when buying and selling bad debts.

Until the recent ruling, Danaharta had been the fastest moving of the three. It has recovered 29% of the face value of its loans, and expects ultimately to recover 57%. It had a head start on the Thai Asset Management Corporation (TAMC), which was set up only in 2001, when a new government abandoned its predecessor's policy of leaving bad loans for the banks to sort out. The Indonesian Bank Restructuring Agency (IBRA), which despite supposed legal immunity has also been impeded by courts, has recovered a mere 5%. Observers say it will be lucky ever to reach 20%.

The courts may be a nuisance, but the agencies have their own failings. Neither Danaharta nor the TAMC discloses details of restructurings, raising suspicion that favoured businessmen receive preferential treatment. IBRA is criticised for being corrupt as well as opaque. For some reason, its officials keep softening the repayment terms of the same financiers who not only ruined their banks during the crisis but also filched $20 billion of government money earmarked for recapitalisation.

That said, IBRA is no more venal than most Indonesian government bodies. Indeed, the performance of the three countries' agencies, and the scale of the mess they have to clear up, has much to do with the quality of government both before and after the crisis. At the worst point, roughly two-thirds of all bank loans in Indonesia went sour, compared with about half in Thailand and a quarter in Malaysia.

That gave Danaharta and the TAMC the luxury of confining themselves to certain categories of bad debt. Indonesia's meltdown was so severe that IBRA ended up taking over not only non-performing loans, but also most of the country's banks as well as assets, from hotels to palm plantations, handed over by businessmen in lieu of debt repayment.

Danaharta also benefits from a clear and simple mandate. It must sell or restructure the loans it took over for the maximum possible return. Other jobs, such as recapitalising banks or revamping the corporate sector, were handed to other agencies. The TAMC has a slightly more ambiguous goal: to maximise returns while preserving Thai businesses. IBRA has endless tasks: selling loans and assets, managing and restructuring whole business empires, recapitalising and selling banks and so on. It has also had to cope with four different governments and seven different bosses in its four-year existence, making it hard to chart any consistent course at all.

Outside Indonesia, political interference has been less capricious and more helpful. As both prime minister and, at times, finance minister, Mahathir Mohamad took a hands-on role in the overhaul of Malaysia's financial sector. Critics say he had ulterior motives, such as handing out banking licences to cronies, but he certainly got the process moving. In a similar way Thaksin Shinawatra, Thailand's prime minister, sought to help his country's struggling businesses by making the creation of the TAMC a central

plank of his election campaign. IBRA could do with a little interference like that.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Reinsurance

Saving SCOR

Jan 2nd 2003
From The Economist print edition

France's biggest reinsurer has been thrown a lifeline

AT LEAST the old year ended happily for Denis Kessler. On December 27th SCOR, the French reinsurer of which he is chief executive, announced that its *euro*381m ($396m) rights issue was fully subscribed. Standard & Poor's and Fitch, two credit-rating agencies, removed SCOR and its subsidiaries from their lists of companies under review for a downgrade of their creditworthiness, although Standard & Poor's said the reinsurer only just qualifies for a prime rating. It still thinks the outlook for SCOR is negative.

So SCOR will survive, and Mr Kessler can proceed with his plans to restore the company, France's biggest reinsurer and the world's eighth biggest, to health. He has been in the job only since November, having previously been vice-chairman of Medef, the French employers' federation. The task is daunting: SCOR's share price dropped by 77% last year, one of the worst performances in a dreadful year for the industry, as concerns about its balance sheet grew. His predecessor, Jacques Blondeau, was shown the door a few days after forecasting a loss of *euro*250m for the year. Two weeks after taking over, Mr Kessler bumped the estimated loss up to *euro*400m.

"It was very hard to raise capital," says Mr Kessler. So it should have been, with such a record. It was also essential: SCOR desperately needed cash to shore up its reserves. Chief rescuer was Groupama, a mutual insurer and SCOR's biggest shareholder with a 19% stake. CNP Assurance, France's largest life insurer, and Matmut, another mutual, were also in the lifeboat. "French insurers use SCOR and they decided to keep it going," says Chris Hitchings of Commerzbank Securities.

In part SCOR is in such a bad state because last year was grim for all European reinsurers. Still reeling from losses related to the terrorist attacks in America in September 2001, they were then hit by slumping stockmarkets, defaults of corporate bonds, floods in central Europe and a new wave of asbestos claims. So SCOR is not the only fragile company: Gerling, a German financial group, has stopped writing reinsurance altogether. Even mighty Munich Re, the biggest reinsurer in the world, reported a loss in the third quarter of 2002. Late last year Swiss Re, the world number two, was stripped of its triple-A credit ratings by leading agencies.

However, SCOR made things worse by underwriting credit derivatives, multi-layered debt instruments, of dubious quality. It experimented with reinsurance for political risk as well as with alternative risk transfer (ART), relatively new forms of insurance such as catastrophe bonds, whereby a company entering a reinsurance contract issues high-yielding bonds to investors, who lose interest, principal or both if a defined event occurs. And Commercial Risk Partners, its subsidiary in Bermuda, mainly writes reinsurance in America for injuries in the workplace, which has proved a bottomless pit.

Mr Kessler's aim is to refocus SCOR on its core business, property-and-casualty reinsurance: "We want to eliminate areas where we are doing badly," he says. SCOR has ceased underwriting credit derivatives, but because of the portfolio's maturity the company will have to wait five years to know the full extent of its losses. Mr Kessler has set aside *euro*130m to cover these. The reinsurer will reduce its underwriting of ART by four-fifths. It will also cut written premiums by one-tenth and scale back its business in America. Mr Kessler wants to cut operating costs by 15% over the next two years. He intends to reshuffle SCOR's

management at the end of this month.

The price of Mr Kessler's plan is that SCOR will miss out on lucrative business at a time of rising premiums and severe capacity shortage. That, however, is the legacy of reckless underwriting that has left SCOR's finances too frail to take on new business. “I don't have the volume of capital I would like,” concedes Mr Kessler. At least he now has enough to stay afloat.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Human cloning

Copy or counterfeit?

Jan 2nd 2003
From The Economist print edition

Claims that a human has been cloned must now be backed up by solid evidence

Get article background

IT SOUNDS like science fiction, and it may well turn out to be: a group with extra-terrestrial interests turns to cloning to create a new breed to further its own peculiar ends. This scenario is not merely the plot of the latest “Star Wars” film, “Attack of the Clones”, however, but is playing out in real life. On December 27th, Clonaid, a firm associated with the Raelians, a religious sect, announced that it had succeeded in producing the world's first human clone—an allegedly healthy baby girl called Eve, born to an unnamed American woman at an undisclosed location.

Clonaid's managing director, Brigitte Boisselier, promised several more cloned babies in the next few weeks. The cult's spiritual leader, Rael—a French journalist formerly known as Claude Vorilhon—says the firm has 2,000 people waiting in the wings to be cloned. The Raelians' interest in the subject arises from its leader's belief that it will eventually be possible to achieve immortality through cloning.

While the Raelians are claiming technological triumph, scientists and bioethicists have responded with a mixture of disbelief and disgust. Alan Trounson, who specialises in animal cloning at Monash University in Melbourne, doubts that Clonaid has the technical expertise to create a human clone. He cites the low success rates so far in other, more commonly used species such as cows and mice, and the even greater difficulty of cloning monkeys, man's nearest neighbour. So the question now is how, and whether, Clonaid will be able to prove its extraordinary claim.

Cloning, or nuclear transfer, is a laboratory technique which gets around the need for conventional fertilisation, the union of sperm and egg which brings together two half-sets of genetic material to provide the resulting individual with a full complement of chromosomes. Cloning achieves the same end by transferring the genetic material from an existing adult cell (which already carries a full complement of chromosomes) into an egg that has had its half-set of chromosomes removed. The trick to mammalian cloning, first mastered by the creators of Dolly, the sheep cloned from an adult cell in 1996, is biochemically prodding the transplanted nucleus from a mature cell into doing the same things that a newly created nucleus from an ordinary sexual union would do—a process known as reprogramming.

But the more researchers study animal cloning, the more they realise that some aspects of reprogramming are very different from what happens in normal embryonic development. It is these differences that seem to cause the sorts of complications now seen in cloned animals, such as spontaneous abortions, birth defects and organ failures in later life.

Although many cloned animals are seriously compromised, others turn out to be perfectly normal. But so far there is no way to predict which clones will thrive and which will perish. From a purely technical standpoint, this uncertainty makes human cloning unacceptably risky for both mothers and babies, which is why Clonaid's claims have elicited such disquiet, quite aside from the ethical objections many people have to human reproductive cloning, safe or otherwise.

For all its professed interest in advanced technology, Clonaid appears to have little time for such scientific niceties as peer review or, indeed, verifiable experimental evidence. The group made its claim without providing any proof—no baby, no mother, no test-tube evidence—although it has promised to deliver the goods in the coming days. But rather than invite recognised cloning experts to investigate its claims, it has arranged for Michael Guillen, an American science journalist and television presenter, to oversee the testing of Eve and her mother.

STR wars

So what sort of proof will Clonaid have to produce to convince the legions of scientific sceptics? Essentially, it must show that the allegedly cloned baby and her mother are genetically identical. This is not rocket science: similar genetic analysis, called DNA fingerprinting, is routinely used to prove paternity or to show that DNA samples taken from the scene of a crime match a particular suspect.

The process begins by taking tissue samples from the individuals in question. Clonaid has said that Eve and her mother will donate blood samples for testing, although Sir Alec Jeffreys, who pioneered DNA fingerprinting in the early 1980s, reckons that simple saliva samples or mouth swabs to collect a few inner cheek cells would be sufficient, if less dramatic. The key, according to Sir Alec, is to ensure that the sampling is performed and witnessed by independent authorities, and that the integrity of the samples is maintained throughout the testing process. There are established protocols for such work in America, where the testing will be performed; whether the Raelians will adhere to them remains to be seen.

Once cells from Eve and her mother reach the laboratory, the next step will be to extract the DNA so that the resulting genetic samples can be compared by looking at sequences called short tandem repeats (STRs). Such repeats are scattered throughout the human genome, and roughly 10,000 of them have been identified so far by researchers. The length of a repeat at a given location in the genome varies from person to person. So if one were to look at, say, ten such locations, the chance of seeing exactly the same pattern of lengths in two people who were not genetically identical would be roughly one in a billion.

To satisfy the likes of Sir Alec, Clonaid would have to provide at least two verified samples to two independent laboratories to investigate two different sets of ten STRs. If the samples matched under such stringent conditions, it would then be hard to argue against the Raelians' claim.

But things may not be so simple. It is possible, for example, that the original nucleus transferred from one of the mother's skin cells could contain a random mutation at one of these STR sites. Since all the genes in Eve's cells would come from that original nucleus, this mutation would then be found in any cell taken from her for testing. But a cell from, say, her mother's cheek might not have suffered the same chance mutation as the donor skin cell, so the mother's DNA at this particular STR site will not match her daughter's.

Safe to say, whatever proof Clonaid produces is unlikely to silence accusations of fraud without further, unfettered investigation by reputable experts. It is too soon to tell whether its claim heralds a real-life “Attack of the Clones”—or is merely a phantom menace.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Taxonomy

What's in a name?

Jan 2nd 2003
From The Economist print edition

It might be better to identify species by number, not name

FOR thousands of years, humanity has classified the living things of this world in much the same fashion: by their appearance. If it looks like a duck, walks and quacks like a duck, then it is a duck. But tackling millions of species in this way has proven to be a recipe for confusion. As taxonomists have found to their cost, what looks like a duck may in fact be a goose.

More recently, genetic techniques have been applied, particularly for distinguishing the more difficult-to-identify species such as viruses and bacteria by comparing pieces of DNA. Might this approach be more generally applicable? Paul Hebert and his colleagues at the University of Guelph, in Canada, think it might be. Just as barcodes and the “universal product code” numbering scheme uniquely identify different items at a supermarket checkout, they suggest that some stretches of DNA could perform a similar function in living things. In a paper just published in *Proceedings of the Royal Society B*, they discuss how long such a genetic barcode needs to be, and where it might be found.

A universal product code found on the high street consists of a string of 11 digits, each of which is one of ten numerals, providing 100 billion unique combinations. Genetic material, however, uses a quaternary, rather than a denary, coding system. Every organism's genome is encoded using a quartet of chemical bases—adenine, cytosine, guanine and thymine, generally referred to by their initial letters, A, C, G and T—in a DNA sequence that can be millions of letters long. In theory, it would only be necessary to sample 15 of those letters to create one billion unique codes.

In practice, however, the characteristics of DNA mean that 15 letters are not enough. Unlike the arbitrary numbers of a universal product code, the letters of DNA are not random, because they code for something that has a biological meaning. So the researchers estimate that a 45-letter signature would be required. As luck would have it, determining the sequence of several hundred letters now costs no more than sequencing a few dozen. As a result, the researchers are confident that it will be possible to capture enough information to distinguish tens of millions of species, using existing technology.

But where is the best place to find a universal product code for organisms? Not within the genome inside the nucleus of living cells, surprisingly. Instead, the researchers suggest targeting the smaller genome found inside cellular components called mitochondria. Such mitochondrial DNA has several features that make it suitable for use as a genetic barcode. It is generally passed unchanged from parent to offspring, unlike nuclear DNA in which maternal and paternal contributions are mixed and shuffled with each generation. It is also relatively free of long “non-coding” regions (sometimes called “junk DNA”) that can cause confusion when comparing DNA sequences.

Within mitochondrial DNA, the researchers believe there are a number of possible genes that might be suitable for use as a biological universal product code. However, one gene in particular has caught their attention. It is called *cytochrome c oxidase* I, and it plays a key role in cellular energy production. It is easy to isolate. Variations in its genetic sequence should work as a unique code to enable different species to be distinguished. Better still, comparison of different organisms' unique codes should help to show how different species are related, and how and when new species evolved.

Until a few years ago it was an immense task to get a useful DNA sequence from a specimen. Today it is possible to find, cut and copy sequences so fast that you can go from the leg of a beetle to a mitochondrial DNA sequence in only a few hours. This will only improve in future with further automation; the use of dedicated DNA-chip arrays would speed things up even more. Assuming that a system akin to the universal product code can be devised and agreed upon, Dr Hebert says it should be possible to compile a complete inventory of known organisms and their corresponding codes within 20

years.

This would revolutionise taxonomy, which began 250 years ago with Linnaeus and has so far managed to categorise only 10% of the earth's estimated 10m-15m species. As well as providing a short cut to the taxonomic finishing line, an inventory of genetic barcodes would dramatically simplify and speed up the process of identifying organisms from small samples. Ultimately any person, with only an afternoon's training, would be able to identify an organism from just a small fragment. The ability to read nature's barcodes could have as much of an impact in the laboratory as man-made barcodes have already had in the shops.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Quantum computing

Heads and tails

Jan 2nd 2003
From The Economist print edition

Practical quantum computers are another step closer

Get article background

THE dream of the mechanics who design quantum computers is to take a problem—the increasingly spooky behaviour of electronic components as they grow smaller, due to the effects predicted by quantum theory—and turn it into advantage. These quantum mechanics hope to use one of that theory's main planks, the uncertainty principle, to allow them to design machines that can do “massively parallel” calculations which are beyond even the theoretical capabilities of conventional computers. That, in turn, would allow currently insoluble problems (including some in the field of cryptography) to be crunched reasonably conveniently.

Building a practical quantum computer will be hard. But another step towards one has just been announced in *Nature*. Stephan Gulde, of the University of Innsbruck, in Austria, and his colleagues have built a prototype machine whose chief working part is a single atom of calcium, and they have run a program on it.

Conventional computers manipulate binary digits (bits). Quantum computers manipulate “qubits” (quantum bits). A bit represents a numerical value of one or zero. However, owing to the uncertainty principle (which says that you can never have perfect information about the behaviour of a very small object) a qubit can represent a one and a zero simultaneously. This allows each qubit to participate in more than one calculation at once, which is why a quantum computer can run a large number of computations in parallel. The problem is manipulating the qubits. Setting their initial values is hard. So is reading the results. And while the computation is performed, different qubits must interact with each other in carefully controlled ways—aptly known as entanglement—while being kept isolated from the environment outside the computer.

Dr Gulde begins by trapping an electrically charged calcium atom (ion) into what is called a “linear Paul trap”, which uses an oscillating electric field to hold the ion in place. It is then zapped by light from a titanium-sapphire laser. Instead of heating it up, as might be expected, this zapping stimulates the ion to give up energy in the form of further light, thus cooling it. This cooling reduces outside influences on the properties of the ion that are used to encode the qubits. One of these properties is the ion's electronic state (the energy levels of its electrons). The other is its vibrational state (how it is resonating in the trap).

The computation itself is performed by a further series of laser pulses. These act on both the electronic state and the vibrational state, and the answer is left encoded in the electronic state. It can be read by a further laser pulse, which stimulates the ion to spit it out in the form of light.

The test to which Dr Gulde put his computer was running the “Deutsch-Jozsa” algorithm. This algorithm, named after David Deutsch and Richard Jozsa, two of the pioneers of quantum computing, is a way to check if a coin is fair or not. A coin is considered to be fair if it has heads on one side and tails on the other. If it has heads or tails on both sides, it is deemed unfair.

In the non-quantum world, checking a coin involves two steps: look at one side of the coin, and then look at the other. Dr Deutsch and Dr Jozsa, however, have worked out a way to use a quantum computer to test an (imaginary) coin in a single step. It involves measuring, after the coin is tossed, a qubit that is an equal mixture of heads and tails. It turns out that an arithmetical sign (plus or minus) in this qubit depends on whether the coin is fair or not—minus is fair, plus is unfair. Measuring the qubit is a one-step process, in effect looking at both sides of the coin at once.

This might not be thought the sort of thing that would make the CIA nervous about the safety of its secret codes. But it is an important proof of principle. Other quantum computers have solved the coin-flipping test, but they were clunky affairs with the qubits encoded in great gobs of atoms. That restricts the number of qubits that can be entangled to ten at most. With this new approach, the limit will be nearer 100. And, since the power of a quantum computer should rise exponentially with the number of entangled qubits, that tenfold leap would have enormous consequences. Many obstacles remain, but computing's quantum mechanics may one day be more concerned with counting coins than with flipping them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Medical technology

Light at the end of the tunnel

Jan 2nd 2003
From The Economist print edition

Taking the heat out of gynaecological examinations

FOR women living in the rich world, gynaecological examinations may be uncomfortable and undignified, but they are, at least, effective. Their poor-world sisters, however, do not have things so easy. In many places, a lack of electricity means that cervical examinations are carried out haphazardly by candlelight. Since there are almost 400,000 new cases of cervical cancer in poor countries each year, a better way of doing things would be welcome.

Fidelma O'Mahony, a gynaecologist at the North Staffordshire Hospital, in Britain, and her colleagues, think they have invented one. Inspired by the growing range of clockwork gadgets (radios, torches and so on) designed for use in places without mains electricity, they have come up with a hand-cranked device that can be used to examine a woman's cervix for signs of cancer.

The device, described in a paper published recently in *BioMed Central Women's Health*, an online research journal, is an adaptation of a commercially available clockwork torch (flashlight). This torch works by storing energy in a hand-wound spring, and then using that energy to drive a dynamo. The electricity produced illuminates a bulb. Dr O'Mahony's insight was to add a fibre-optic cable to carry light from the bulb to the interior of the vagina. The other end of the cable clips on to an instrument known as a speculum, which is used to keep the vagina open during the examination. The result is a beam that can be directed accurately at features of interest.

Tests have shown that this arrangement for illuminating the cervix is better than either a candle or an angle-poise lamp. Charging the device up is hard work: six hours of winding yields 2½ hours of useful light. But that is enough for 12-15 examinations. A little elbow-grease from their men-folk could thus keep women-folk in better health.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Shakespeare's "Twelfth Night"

So long London, hello New York

Jan 2nd 2003
From The Economist print edition

Getty

A popular British stage director leaves for the United States on a high note

SAM MENDES'S productions of Shakespeare's "Twelfth Night" and Chekhov's "Uncle Vanya" have been playing to acclaim at the Donmar Warehouse theatre in London since September. As he is leaving the Donmar, which he has run with such success since 1992, for Hollywood and New York, these two plays are in effect his last goodbye. Suitcase moments are quintessentially Chekhovian, but Mr Mendes brings one in to "Twelfth Night": Sir Toby Belch and Maria are about to depart, with the rest of the cast, for a January 10th opening at the Brooklyn Academy of Music. "What country, friends, is this?" asks Viola. "This is Illyria, lady," as the taxi driver might put it.

This is an Illyria far from the sound of the sea that washes through the language and plot of Shakespeare's play. There is no scenery; only candles hanging high and low over the actors and, upstage, a great empty picture-frame. A dark, indoors place, in which black-clad, vaguely Edwardian characters brood, and dream each other into the frame: Olivia, conjured there by the lovesick Orsino and the self-lovesick Malvolio; Viola/Cesario by Olivia;Sebastian by Viola. The one puzzle is Malvolio, blindfolded, straitjacketed and dumped there by Feste.

Sir John Gielgud once lamented the difficulty of combining "the romance of the play with the cruelty of the jokes against Malvolio". Mr Mendes does not duck the cruelty. Simon Russell Beale's brilliant Malvolio is an odious prig, with his fat, fussy walk, his tight buttons, his bed-time hairnet, and his head prefect's spite against Maria and Feste. But he is pitiable too. As he sniffs his armpits and reads his Bible in the bedroom, our laughter is painful. And his last fierce whisper—to be "revenged on the whole pack of you"—strikes a sudden chill.

Shakespeare's title is thought to refer to the saturnalian revels associated with the 12th day of Christmas, January 6th. But Paul Jesson's Sir Toby, belching and farting on a purple sofa with the doddering, death's-head Aguecheek of David Bradley, is no jolly knight. As in Chekhov, people are never as young as they were. Selina Cadell's Maria is middle-aged (hardly Toby's "youngest wren of nine"), more busy than fizzy, and her letter-trick is a deliberate revenge, rather than a prank that goes too far.

"Twelfth Night" is an ambiguous comedy: as Feste says of Orsino, it is "changeable taffeta". Mr Mendes, taking his cue from Feste's sad songs ("Youth's a stuff will not endure", "For the rain it raineth every day", touchingly sung by Anthony O'Donnell) has chosen to play it dark and quiet. Harold Bloom, in his most recent book on Shakespeare, talks of the characters "opening inwards", and in the intimate space of the Donmar, all the play's introspection—the concealed love of Emily Watson's Viola and the idle

philosophising of Mark Strong's Orsino—comes across with a wonderfully natural simplicity. In fact, intelligent simplicity is the keynote of the acting and the verse speaking in general.

On the other hand, a certain edge is missing. The play is about madness, about intoxications well beyond the belch line. It doesn't help that Ms Watson is an unusually womanly Viola/Cesario. Suspension of disbelief does overtime on Cesario, whereas a more androgynous casting would have freed us to wonder more about Orsino. What is he up to? He is certainly not making him a willow cabin at Olivia's gate. His sudden kiss, full on Cesario's mouth after the “worm i' the bud” speech, is a good moment, but not quite as mysterious as it should be. And what does he mean by offering to sacrifice Viola? What extreme has she reached, to go “jocund, apt and willingly” to her death? Mr Mendes sinks these last bits in the happy ending.

There is no playing safe in Helen McCrory's dizzy Olivia. Some critics have grumbled at her vampishness. But it is finely judged, the flipside of her crazy promise to spend seven years mourning for her brother, watering “once a day her chamber round/ With eye-offending brine”. On Cesario's first exit, she is already, touchingly head over heels. “Even so quickly may one catch the plague,” she says—and we believe her. When, at the end, she learns that she has married Sebastian and not his twin, her throaty exclamation, “Most wonderful!”, raises a rich laugh, which is a welcome back to sanity.

“Twelfth Night” is the Hamlet of Shakespeare's comedies, so to speak. Everyone has an imaginary ideal. True, there have been funnier productions, but Sam Mendes's has rare qualities: directness, clarity, richness of feeling—and Simon Russell Beale.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Contrarian investing

Beating the street

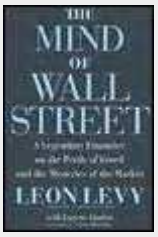
Jan 2nd 2003
From The Economist print edition

ANY fool can make money in a bull market. It is in less straight-upward markets that true investing skill is revealed. One such rare talent is Leon Levy, a guiding force behind two hugely successful Wall Street firms—Oppenheimer and Odyssey Partners—whose memoir of 50-plus years in the market is a timely reminder of what it takes to prosper when, as now, asset prices fall at least as often as they rise.

Mr Levy, who began investing at 13 with a $200 *bar mitzvah* gift, hangs his story on a broader theme: the interplay of markets and psychology. The “simple rhythm of markets is as predictable as human avarice”, he contends. “Good times breed laxity, laxity breeds unreliable numbers and ultimately unreliable numbers bring about bad times.” A long-time student of investment landmarks such as tulip mania, the South Sea Company and the 1929 crash, in the late 1990s he “knew my bubble had finally come”. Despite the past two miserable years in the market, he fears there is worse to come: “We are in but the third act of a five-act Shakespearean drama that portends a bad ending.” Neither consumers nor investors have yet realised the “perils of the suffocating pall of debt hanging over the financial world”.

The writing is less florid when Mr Levy gets down to details. He is especially candid about the “grating personality traits that often accompany success in the market”—though his own persona is that of an engaging absent-minded professor. A colleague at Oppenheimer once dubbed him the “partner in charge of interplanetary affairs”. But there is plenty of guile behind the façade; in investing, absent-mindedness saved him from being caught up in the passing fancies of the crowd, allowing him to concentrate on finding real bargains.

The Mind of Wall Street: A Legendary Financier on the Perils of Greed and the Mysteries of the Market
By Leon Levy and Eugene Linden



PublicAffairs; 220 pages; $26.
To be published in Britain by Texere in April

Buy it at
Amazon.com
Amazon.co.uk

As he observes, in the top financial ranks there are disproportionate numbers of contrarians, and “these successful contrarians often have a world view of which finance and the markets are but a small part.” His own interests include psychology and history, especially archaeology, of which he is a generous benefactor. Like many of his Wall Street peers, he regards philanthropy as an integral part of the same psychological package that brought his investment success—though he also credits America's tax breaks for charity for encouraging his philanthropic instincts, which first showed themselves in financial help he gave to academics who found themselves the targets of witch hunts in the McCarthy era. He now funds the Levy Economics Institute—named after his father, run by his brother and nephew—archaeological digs and much else.

His investing is built around finding unfashionable companies, especially distressed ones, which the market has undervalued. He also keeps a close watch on the activities of other informed investors, often free-riding on their strategies. Early in his career, he saw that Paul Getty was quietly buying up shares in undervalued oil firms with a long-term goal of taking control—so Mr Levy also bought the shares. Mr Levy, like most other successful investors, is also obsessed with the opportunities and threats generated by the tax code.

And he knows that on Wall Street sharks outnumber bulls and bears—even, or perhaps above all, in the most respected firms. When Oppenheimer hired Lazard to sell its pioneering mutual-fund business, Lazard quickly found out who the star fund managers were and began to poach them. Felix Rohatyn, Lazard's Machiavellian senior partner, tried to play down Oppenheimer's complaints by saying, “All of us have been through a divorce, right? Well, this is like any divorce where you have different sides”,

producing the retort that “It's like a divorce in which your lawyer is sleeping with your wife.”

Later, Mr Levy tried to persuade the managers of Trans World Corporation to break up the undervalued firm. Goldman Sachs advised its wealthy clients to buy the firm's shares because its parts were worth more apart than together—and also advised the firm's managers on how to reject Mr Levy's plan to break up the firm. Notes Mr Levy, this “doublespeak” was a precursor to the 1990s “when events revealed with brilliant clarity whom investment bankers really represent”.

Now Mr Levy is bullish on the euro and shorting the dollar. He is excited by the possibilities in Russia. But he would be the first to admit that he might be wrong, and that a golden rule of successful investing is not to put all your horses in one derby. Even the best can come a cropper. Mr Levy confesses that he once invested in a partnership designed to smooth the profits of a well-known company, after being introduced to “one of the more engaging and articulate young men I had met in a long time”. Who exactly? Andrew Fastow, then chief financial officer of Enron.

The Mind of Wall Street: A Legendary Financier on the Perils of Greed and the Mysteries of the Market. By Leon Levy with Eugene Linden.
PublicAffairs; 220 pages; $26.
To be published in Britain by Texere in April

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Memories of Palestine

Uprooted

Jan 2nd 2003
From The Economist print edition

THE pivotal moment of Ghada Karmi's life was her family's enforced departure from Jerusalem in 1948. She left behind Fatima, the nurse who had raised her, and Rex the dog. “Our hasty, untidy exit from Jerusalem was no way to have said goodbye to our home, our country and all that we knew and loved,” Ms Karmi writes of her nine-year-old self. She would not return for nearly 50 years, and then in despair.

The Karmis settled in Golders Green, a well-known Jewish area of London. Bewildered themselves, they struggled to bring up three children whose adult lives would reflect their dislocation. Ms Karmi's father built bridges across their exile working for the BBC, while her mother tried to replicate every Palestinian family custom in a London household. Ms Karmi trained as a doctor and, to her mother's dismay, married an Englishman. But shifting political events—the Suez crisis, the 1967 Arab-Israeli war—forced her to re-evaluate her Palestinian identity, and in the 1970s she became a prominent political activist.

Keenly observed, fierce, honest and yet light of touch, Ms Karmi's memoir of dislocation illustrates just how inseparable, for many people, the personal and the political still can be.

In Search of Fatima: A Palestinian Story.
By Ghada Karmi.
Verso; 451 pages; $26 and £16

In Search of Fatima: A Palestinian Story
By Ghada Karmi

Verso; 451 pages; $26 and £16

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Scottish nationalism

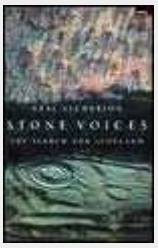
Puzzles of patriotism

Jan 2nd 2003
From The Economist print edition

SCOTLAND received devolved government, and may yet become independent, just as the issue has ceased to matter much. The one devolution of the three in Britain which does matter to the people within its jurisdiction is that of Northern Ireland. It is the principal cockpit for the unresolved struggle between the forces of British unionism and of Irish republicanism, and its first importance is that it keeps the struggle within a less violent framework than it has been for most of the past 30 years.

But the Scots are not violent about their nationalism—except in speeches. In part this is because most of them don't want it: even some of the voters for the Scottish National Party would prefer devolved to independent government. It may be that Scotland's pro-nationalist intellectuals, of whom Neal Ascherson is among the most distinguished, and its burgeoning devolved political class, will wheedle the country down to full nationhood. But even if they do, it will excite them, but not many beyond them.

Stone Voices: The Search for Scotland
By Neal Ascherson



Granta; 326 pages; £16.99.

Buy it at
Amazon.com
Amazon.co.uk

Scotland as a nation would be run by democratic politicians, conforming to the rules of the free market, respectful of civil and human rights of all (even the English, who have moved in large numbers into Scotland in the past two decades) and happy, or at least constrained, to remain members of the European Union, of NATO, of the World Trade Organisation, the International Monetary Fund, and so on. It will not, as Ireland did 80 years ago, seek to emphasise every possible difference from the imperial power with which it broke—to the point of becoming as much a theocracy as a democracy for the first decades of its existence. It will be hard to tell the difference between an independent Scotland and the shamefully servilesociety the nationalists like to say their country presently is.

These nationalists have loved to scream at their countryfolk that they are cowards, living, as a Scottish poet, William McIlvanney, once put it, “still among stinking straw today”. But cowardice is not the point. The Scots generally don't care because they are citizens of a liberal state, in which the democratic forms are taken largely for granted and liberal norms are very largely internalised. Parliaments will all do much the same thing: a fact which nationalists, who love difference, find reprehensible but which is largely good for the people they govern.

Mr Ascherson is a very cultivated nationalist indeed, who does not scream. He is a subtle and insightful writer with getting on for half a century of advocacy across much of (especially central) Europe behind him. This tough, closely woven book, speaking in an accent unmistakably the author's, was received with justifiable acclaim when it was published in Britain last year. It is much more a reflection, or a series of them, in the continental manner, than it is a history or a piece of reportage. There is, of course, both history and reportage; there are also the fruits of years of close looking and inquiring; a good deal of argument with himself and others, a frequent surrender to the Scots vice of proclaiming: “ha's like us?” (in a sophisticated form)—followed, as a pail of water over the head after a night on the whisky, by a spell of the Scots virtue of putting the other side of the argument.

If vice seems, to this unionist reviewer, to win over virtue, that is largely because the author thinks that the Scots can fashion institutions, in independence, which reflect their particular bents and national spirit. But only that kind of politics which Mr Ascherson detests can use the nation any longer as a political lever. Those who wish to remain liberals, of left or right, are stuck with cosmopolitanism—another virtue of such long standing with the Scots that they can plausibly argue they invented it, along with everything else.

Stone Voices: The Search for Scotland.
By Neal Ascherson.
Granta; 326 pages; £16.99.
To be published in America by Hill and Wang in April

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The ski industry

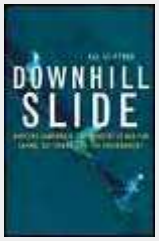
Mogul moguls

Jan 2nd 2003
From The Economist print edition

WHEN Linda Lay, wife of Enron's disgraced ex-boss Kenneth, wanted to show her fellow Americans how stretched the Lay family budget had become last winter, she cried during a television interview in which she revealed that the family was being forced to sell its mountainside retreats in Aspen, Colorado. Such snowy status symbols underlie Hal Clifford's story of new money and giant ski companies conspiring to gentrify North America's Wild West.

Ever since Averell Harriman dispatched an Austrian count, Felix Schaffgotsch, to Idaho to select the site of Sun Valley—America's first purpose-built ski resort and home for a while to Ernest Hemingway—America's skiing industry has been built on selling dreams of status to the country's burgeoning new rich, especially the baby boomers. But as the number of skiers has fallen in recent decades, the damage they wreak on western mountain towns has actually increased. Rapacious corporations build *faux* ranches for rich New Yorkers, pump oceans of water out of local wells for their artificial snow, and drive locals away with higher prices. Jet aeroplanes land where elk used to graze, as skiers flock in from warmer climes to shop at Ralph Lauren boutiques. Mr Clifford tries to explain the social and economic forces that turfed out the soulful ski-bums and drop-outs who once gave ski towns character.

Downhill Slide: Why the Corporate Ski Industry is Bad for Skiing, Ski Towns, and the Environment
By Hal Clifford



Sierra Club Books; 282 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

Sadly, however, many readers will be put off by his environmental piety. America's glittery ski resorts, such as Aspen, Vail, and Jackson Hole, are, Mr Clifford keeps reminding us, run for profit. Oh, the shame. The local environmental activists he reveres are typically square-jawed, lanky and fit, and have a wholesome appreciation of *Idrott*—the Swedish notion that winter sports breed strength, toughness and manliness. The bad guys are also easy to spot—khaki-clad property brokers with their mobile phones holstered at the hip. At times, Mr Clifford's disdain for outsiders betrays the more selfish motives of America's environmental movement: you might be forgiven for thinking that he is as keen to keep out the unwashed masses from charming Colorado towns such as Telluride—where he manages a film festival—as he is to protect those glorious Rocky Mountain vistas.

In any case, what is nominally a book about the skiing industry turns into a useful study of the cultural fault lines in the American west, where the Judeo-Christian idea of manifest destiny collides with the neo-pagan ideas of John Muir, Henry David Thoreau and Ralph Waldo Emerson. It also plays on more than a bit of nostalgia and naiveté (the author looks to Europe for a blueprint of community-controlled, rather than for-profit, skiing—surely he has never been to France's mega resorts). As a business case study, the tome is similarly a fine guide to the rapacious power of the property industry in America, yet its core thesis—that big companies have destroyed skiing and ski towns—is not proven. Only about a quarter of America's ski resorts are controlled by the monster resort companies, and these are struggling. Indeed, Mr Clifford helpfully highlights the attempts of a few entrepreneurs and towns to keep big money out of skiing. This book will give skiers with a green conscience needless worries on their next run.

Downhill Slide: Why the Corporate Ski Industry is Bad for Skiing, Ski Towns, and the Environment.
By Hal Clifford.
Sierra Club Books; 282 pages; $24.95

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

New fiction

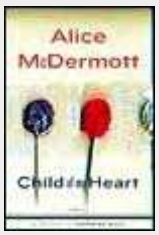
Not for tots

Jan 2nd 2003
From The Economist print edition

VIRTUE can grow oppressive. In “Child of My Heart,” the gifted Brooklyn-born writer, Alice McDermott, captures the world of a gorgeous 15-year-old girl to an impressive degree, but most people who vividly remember being 15 will find something missing. Where is the squirm of rebellion, that embryonic hint of wickedness?

The narrator, Theresa, is a summer babysitter on Long Island, beloved of children and dogs. Yet though this poised young lady is unremittingly kind, regular ministration to “poor Janey” and “poor Daisy” and “poor father” imputes a trace of condescension to her otherwise flawless character. There is one snake in the garden, an elderly artist who ogles his toddler's minder from not nearly far enough away. But the texture of Theresa's improbable flirtation with this septuagenarian rake is depressingly innocent.

Child of My Heart
By Alice McDermott



Farrar, Straus and Giroux; 256 pages; $23

Buy it at
Amazon.com

The one thing that seems aberrant for such a responsible child minder is Theresa's bizarre reluctance to bring it to the attention of an adult when her cousin, poor Daisy, blossoms day after day in vast, unexplained bruises. But the text never allows that this sin of omission is the source of guilt. Why should Theresa, beautiful and universally adored, feel bad about anything?

Ms McDermott is a terrific writer—precise, immaculate, and with a keen lyrical ear; the artist's child is “iridescent, milky white, the unlikely miraculous flesh conjured out of a stooped old man and his hard and narrow wife.” For at least half the novel, her incantatory cadence carries the reader blissfully along like the lulling rhythm of an overnight train. But thereafter the more mischievous among us will sorely wish that, when Theresa pours a morning tumbler of scotch for her alcoholic employer, she doesn't biddably tote it to his studio, but takes a slug of it herself.

Child of My Heart.
By Alice McDermott.
Farrar, Straus and Giroux; 256 pages; $23

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

New fiction

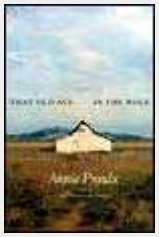
Pork scratchings

Jan 2nd 2003
From The Economist print edition

THERE is a familiar feel to Annie Proulx's new novel: traumatised, supine man finds redemption in Lone-Star country. Admittedly, Bob Dollar does not have it as bad as his predecessors; his parents only disappeared without trace. After a series of dead-end jobs Bob gets another scouting sites for industrial pig farms in the Texas panhandle. He settles in an old cowboy bunkhouse without electricity or running water near the town of Woolybucket where he proves a poor salesman of pig hell and an even worse liar. Locals quickly see through his claim to be searching out property for luxury homes.

Panhandle prejudice proves to be equal opportunity: old-timers dislike Jews and homosexuals just as much as blacks. But there are more enlightened cowboys. They speak up passionately on behalf of the pigs penned in the industrial farms whose skins are paper thin and bleed at the slightest touch and whose legs snap under the weight of their steroid-gorged bodies. Bob persists not because he believes the propaganda of his sinister employer, Global Pork Rind, which holds pigs to be food units with no rights, but to prove to himself that, unlike his parents, he can stand by his commitments.

That Old Ace in the Hole
By Annie Proulx



Scribner; 361 pages; $26.
Fourth Estate; £17.99

Buy it at
Amazon.com
Amazon.co.uk

Ms Proulx captures the local twang, which has “oil” down as “awl”, and too the beauty of the luminous cattle country, where dusk sifts down “like molecules of pulverised grey silk”. The men of Woolybucket get more generous treatment than in Ms Proulx's previous work. The sheriff may be a bed-wetter but there are a trifle fewer bullies and sexual deviants. A monk who rides in the local rodeo is even allowed to pass through the novel without lifting his cassock in brotherly lust.

Still, the story does not rise to its setting. There is little emotional resonance; Bob does not take a fancy to any Texan gal (or boy). Ms Proulx's characters appear and disappear without purpose. A childhood friend turns up at Bob's bunkhouse in a Porsche having made a fortune with a hit record, “Live Fart Rock Hits From Prison”, then promptly zooms off to Austin. Long recitations of local history give a sense of having lingered too long in a county library.

“That Old Ace in the Hole” will undoubtedly be made into a mainstream Hollywood film. The disappointment is that it reads like one.

That Old Ace in the Hole.
By Annie Proulx.
Scribner; 361 pages; $26.
Fourth Estate; £17.99

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

James Ferman

Jan 2nd 2003
From The Economist print edition

James Alan Ferman, film censor, died on December 24th, aged 72

The Times

CRITICS of James Ferman's job said that Britain had no need for a film censor. People should be free to see whatever they fancied. Perhaps. But what of a film such as “Salò”? It is a version of the Marquis de Sade's “The 120 Days of Sodom”, set in the small town of Salò in northern Italy in the final months of the second world war. Salò was the last place in Italy where Mussolini held power, which he exercised over its inhabitants with great ferocity. In the film four aristocrats who have prospered under fascism kidnap a number of young people and enact Sade's fantasies.

Mr Ferman did not doubt that the film had serious intent. Its director, Pier Pasolini, said the film was a metaphor of fascist rule, in which people were considered as objects and denied human feelings. All the same, Mr Ferman had to consider the impact on audiences of images of extreme brutality and a range of perversions, among them coprophilia and torture for gratification. But when he first saw the film in 1976 he did not feel it should be cut, despite its “shocking, disgusting and revolting nature”. The film sought to show “the atrocities of which human nature is capable when absolute power is wielded corruptly”. Still, for many years an edited version of “Salò” was all that could be shown in Britain, and then only in private film clubs. Not until 2000 was the full version given a certificate for public showing to people aged 18 and over.

Did the British film audiences of 2000 need less protection than those of 1976? It has to be said that most other European countries have not been too worried about “Salò”. On its release in Italy it was briefly attacked, but for political reasons. It was shown without bother in Paris cinemas. Swedish censors nodded it through. In the United States it has been generally available, although it has occasionally run into trouble from local communities.

Mr Ferman acknowledged that Britain has the strictest film censorship in Europe. It may be partly due to tradition. Shakespeare had to watch his words, especially over religion. Britain's class bias may play a part. There is no censorship on books. But those who can barely make their way through a tabloid newspaper may be thought vulnerable to subversive notions.

Nudity and nostalgia

Still, James Ferman insisted that his censorship was, in essence, voluntary, although taking account of relevant British law. The British Board of Film Censors, which he joined in 1975, and which later became the British Board of Film Classification, was set up as a self-regulatory body for the film industry. Mr Ferman was a moralist but he was aware that the movie business sought a smooth passage for its expensive products. Sometimes a small cut could lead to a lower classification and a bigger potential audience. He flew to Hollywood to seek 24 cuts in violent scenes in “Raiders of the Lost Ark”.

The change of the name to “classification” reflects how the board has sought to move with the times, to guide rather than censor, partly as a result of its experience with films such as “Salò” which, for all their claims to artistic integrity, aim to push back the barriers of what the public can be allowed to see. Nudity used to be a censor's worry. Was Jane Russell showing too much of her bosom in “The Outlaw”, made in 1943? Now heaving breasts are commonplace, and penises are slowly coming into view.

The innocent days of film-making ended with such productions as “Last Tango in Paris” and “Straw Dogs”, which were a headache for Mr Ferman's predecessor, Stephen Murphy. Mr Ferman endured days

of agony over “Reservoir Dogs”, with its torture scene, and “The Last Temptation of Christ”, said to be blasphemous. He was regularly criticised for being too liberal or too conservative, but claimed that he enjoyed “the crossfire”. The job had such power, he said, “that we need to be shot at”. The impact of films on children was the main worry of Mr Ferman, who had a son and a daughter. He feared that chains used as whips in Kung Fu films could be copied by children. Videos, although classified like films, could be watched unsupervised in the home.

The guardian of British morality was an American, born in New York. His father was a film director who had worked with D.W. Griffiths, a Hollywood pioneer who invented the close-up. Mr Ferman developed a taste for British life while serving with the American air force at a base in eastern England, and gained a degree in English at Cambridge. He did some acting, then moved into television as a director and writer. He was 45 when he became film censor, and held the job for 23 years. In a typical year he would certify about 400 films and 3,000 videos. Many productions would be vetted by his assistants, but he would take responsibility for their public showing, even for such lesser masterpieces as “Sizzling Suburban Couples”, a video sold only in licensed sex shops.

He reckoned that some form of censorship would continue to be needed. He regretted that he had not been able to halt the growth of violent pornography, much of which was sold illegally. Yet despite watching films of varying quality day after day, year after year, James Ferman said he loved them. “Singin' in the Rain”, he thought, was his favourite.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jan 2nd 2003
From The Economist print edition

American consumers rang out 2002 amid many worries. The Conference Board's consumer-confidence index fell to 80.3 in December from a revised 84.9 in November, defying forecasters' more optimistic estimates. American consumers' assessment of present conditions, as well as their expectations for the future, became gloomier. Weak spending during the Christmas shopping season, an eight-year high in the unemployment rate and continued jitters over a possible war with Iraq all contributed to the downturn in confidence.

American retail sales grew by 3.3% in volume terms in the year to November.

Stockmarkets around the world plunged in 2002. **America's** Dow Jones index suffered its third successive declining year in 2002, its first three-year losing streak since the period from 1939 through 1941. **Germany's** DAX index fell by 44% in 2002. **Austria's** stockmarket was the only rich-country bourse that saw rising prices in 2002.

Industrial production in the **euro area** grew by a sluggish 0.3% in the year to October. In **France**, despite poor economic growth, unemployment held steady at 9.0% in November for the sixth month running.

Canada's industrial production was flat in October, but rose by 5.2% compared with the previous year. Consumer-price inflation remained steady at 3.2% in November.

Consumer-price inflation in **Germany** ran at 1.1% in December, for the second month in a row.

Producer prices rose by 0.9% in **France**, and by 1.2% in **Italy**, in the year to November.

Italian workers' wages rose by an average 2.1% in the year to November.

Industrial production in **Japan** fell in November by 2.2%, far more than forecasters expected. In year-on-year terms, growth in industrial production slowed to 4.5% in the year to November from 5.3% in the year to October. Wage growth for Japanese workers slowed to 0.6% in the year to November.

Oil prices hit a two-year high of $33 a barrel, owing to a strike in Venezuela and fresh fears of war in Iraq.

The **euro** rose briefly to a three-year high against the **dollar** of $1.05.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Jan 2nd 2003
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 3.5	+ 3.7 Q3	+ 3.6	+ 3.3	+ 2.7 Q2	+ 5.4 Q3	6.1 Nov	6.8
Austria	+ 2.5	+ 0.9 Q2	+ 0.6	+ 1.6	– 2.9 Oct	+ 3.8 Oct	4.1 Oct	3.8
Belgium	+ 1.2	+ 0.8 Q3	+ 0.6	+ 1.7	+ 3.0 Oct	– 6.5 Sep	11.6 Nov†	10.8
Britain	+ 3.4	+ 1.8 Q3	+ 1.6	+ 2.5	– 1.2 Oct	+ 4.0 Nov	5.2 Oct††	5.1
Canada	+ 3.1	+ 4.0 Q3	+ 3.4	+ 3.2	+ 5.2 Oct	+ 7.0 Sep	7.5 Nov	7.6
Denmark	– 3.8	+ 0.9 Q3	+ 1.6	+ 2.0	nil Sep	+ 7.5 Oct	5.4 Oct	5.0
France	+ 0.9	+ 0.8 Q3	+ 1.0	+ 1.8	– 0.6 Oct	+ 2.7 Oct	9.0 Nov	8.8
Germany	+ 1.1	+ 0.4 Q3	+ 0.3	+ 1.1	– 1.4 Oct	– 1.1 Oct	10.0 Nov§	9.5
Italy	+ 1.1	+ 0.5 Q3	+ 0.4	+ 1.5	– 2.1 Oct	– 0.7 Oct	9.0 Jul	9.5
Japan	+ 3.2	+ 1.3 Q3	– 0.5	+ 0.7	+ 4.5 Nov	– 1.8 Oct	5.3 Nov	5.4
Netherlands	+ 0.3	+ 0.1 Q3	+ 0.3	+ 1.4	– 1.4 Oct	+ 2.9 Oct	2.5 Nov**	2.0
Spain	+ 3.2	+ 1.8 Q3	+ 1.9	+ 2.4	+ 4.1 Oct	na	11.7 Oct	10.6
Sweden	+ 1.6	+ 2.0 Q3	+ 1.7	+ 2.3	– 1.5 Oct	+ 8.6 Oct	3.9 Nov†	3.7
Switzerland	+ 1.3	+ 0.6 Q3	nil	+ 1.2	– 3.5 Q3	+ 2.6 Oct	3.3 Nov†	2.1
United States	+ 4.0	+ 3.2 Q3	+ 2.4	+ 2.6	+ 1.8 Nov	+ 3.3 Nov	6.0 Nov	5.6
Euro area	+ 1.3	+ 0.8 Q3	+ 0.7	+ 1.5	+ 0.3 Oct	– 0.6 Sep	8.4 Oct	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.9	+ 2.3 Q3	na	na	+ 5.4 Nov	+ 1.1 Sep	8.2 Nov†	8.8
Greece	na	+ 3.6 Q3	na	na	+ 1.0 Oct	na	na	na
Iceland	na	+ 3.1 2001	na	na	+ 3.3 2001	na	2.8 Nov†	1.5
Ireland	na	+ 6.5 Q2	na	na	+16.9 Oct	+ 1.1 Oct	4.4 Nov	4.1
Luxembourg	na	+ 3.5 2001	na	na	– 1.4 Sep	– 5.7 Jul	3.3 Nov†	2.7
New Zealand	+ 5.0	+ 5.0 Q3	na	na	+ 4.3 Q2	+ 8.1 Q3	5.4 Q3	5.2
Norway	– 0.9	+ 1.0 Q3	na	na	+ 2.3 Oct	+ 2.8 Oct	3.8 Q3	3.6
Portugal	+ 2.8	+ 0.9 Q2	na	na	– 0.5 Oct	+ 1.4 Oct	5.1 Q3†	4.0

*% change at an annual rate. †Not seasonally adjusted. ††Aug-Oct; claimant count rate 3.1% in Nov. §EU harmonised rate 8.4% in Nov. **Sep-Nov.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Jan 2nd 2003
From The Economist print edition

% change on year ago

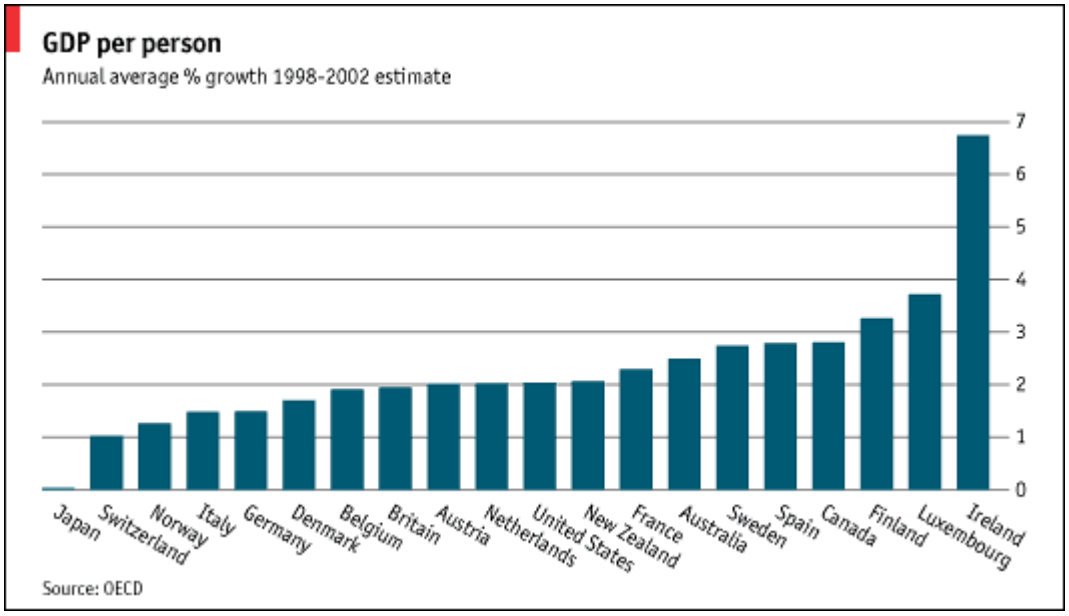
	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 3.2	Q3	+ 2.5	+ 2.9	+ 2.6	– 0.2	Q3	+ 2.4	+ 3.6	Q3	+ 4.0
Austria	+ 1.7	Nov	+ 2.1	+ 1.8	+ 1.7	+ 0.5	Nov	– 1.5	+ 2.2	Nov	+ 2.7
Belgium	+ 1.4	Dec	+ 2.2	+ 1.7	+ 1.4	+ 1.5	Nov	– 3.6	+ 2.1	Q3	+ 3.7
Britain	+ 2.6	Nov	+ 0.9	+ 1.9	+ 2.4	+ 1.2	Nov	– 1.4	+ 3.7	Oct	+ 4.3
Canada	+ 3.2	Nov	+ 0.7	+ 2.2	+ 2.5	+ 2.4	Oct	– 1.3	+ 2.6	Sep	+ 2.0
Denmark	+ 2.7	Nov	+ 1.9	+ 2.4	+ 2.1	+ 0.8	Nov	– 1.2	+ 3.9	Q3	+ 4.3
France	+ 2.2	Nov	+ 1.2	+ 1.9	+ 1.4	+ 0.9	Nov	– 2.2	+ 3.4	Q3	+ 4.2
Germany	+ 1.1	Dec	+ 1.7	+ 1.4	+ 1.1	+ 1.1	Nov	– 1.9	+ 2.5	Oct	+ 2.3
Italy	+ 2.8	Nov	+ 2.4	+ 2.5	+ 2.0	+ 1.2	Nov	– 1.3	+ 2.1	Nov	+ 2.8
Japan	– 0.4	Nov	– 1.0	– 1.0	– 0.6	+ 0.3	Nov	– 0.8	+ 0.6	Nov	+ 0.6
Netherlands	+ 3.2	Nov	+ 4.2	+ 3.7	+ 2.5	+ 2.2	Oct	– 1.4	+ 3.4	Nov	+ 4.9
Spain	+ 3.9	Nov	+ 2.7	+ 3.4	+ 2.7	+ 1.7	Nov	– 0.8	+ 3.8	Q3	+ 3.6
Sweden	+ 2.3	Nov	+ 2.7	+ 2.3	+ 2.0	– 0.8	Nov	– 0.9	+ 2.7	Sep	+ 3.6
Switzerland	+ 0.9	Nov	+ 0.3	+ 0.7	+ 0.8	– 0.4	Nov	– 2.0	+ 2.5	2001	+ 1.3
United States	+ 2.2	Nov	+ 1.9	+ 1.6	+ 2.1	+ 0.9	Nov	– 1.2	+ 2.9	Nov	+ 3.9
Euro area	+ 2.2	Nov	+ 2.1	+ 2.2	+ 1.7	+ 0.9	Oct	– 0.7	+ 3.3	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	Nov	+ 1.7	na	na	+ 1.1	Nov	– 4.3	+ 3.5	Q3	+ 4.7
Greece	+ 3.6	Nov	+ 2.4	na	na	+ 2.1	Nov	– 0.5	na		na
Iceland	+ 2.0	Dec	+ 8.6	na	na	+ 5.8	Nov	+ 6.8	+ 5.7	Nov	+ 9.4
Ireland	+ 4.8	Nov	+ 3.8	na	na	– 1.2	Nov	nil	+ 6.2	Q3	+ 8.1
Luxembourg	+ 2.2	Nov	+ 2.1	na	na	+ 0.1	Oct	– 0.3	+ 1.6	Sep	+ 1.7
New Zealand	+ 2.6	Q3	+ 2.4	na	na	– 1.7	Q3	+ 6.2	+ 2.3	Q3	+ 2.0
Norway	+ 2.1	Nov	+ 1.8	na	na	+ 3.2	Nov	–23.2	+ 5.0	Q3	+ 4.8
Portugal	+ 4.0	Nov	+ 3.9	na	na	+ 1.7	Nov*	+ 0.6	+ 0.6	Sep*	na

*Revised series.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

GDP per person

Jan 2nd 2003
From The Economist print edition



International comparisons of economic growth usually focus on GDP, but what generally determines prosperity is GDP per person. Although the American economy has grown quite rapidly over the past five years, so too has its population. As a result, living standards in America have not risen as fast as in several other rich countries, including some in the euro area. In Japan, living standards have barely risen since 1998.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Jan 2nd 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Dec 31st 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 8.1	+ 9.7	Nov	4.84	4.25	4.54	5.16	5.91	5.91
Britain	+ 6.8	+ 5.8	Nov	3.97	4.00	3.73	4.39	4.99	5.83
Canada	+ 9.8	+ 6.1	Nov	2.67	1.92	3.04	4.79	5.46	na
Denmark	+ 6.6	+ 6.2	Nov	2.15	3.75	3.08	4.40	5.07	6.80
Japan	+28.6	+ 3.2	Nov	0.02	0.02	0.04	0.90	1.35	na
Sweden	+ 1.8	+ 4.8	Sep	3.55	3.65	3.63	4.63	5.23	4.26
Switzerland	+12.3	+ 5.1	Nov	0.62	1.83	0.81	2.17	3.47	3.18
United States	+ 3.2	+ 6.6	Nov	1.29	1.77	1.55	3.82	5.16	6.19
Euro area†	+ 8.2	+ 7.0	Oct	2.87	3.28	2.72	4.15	4.89	na

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.76%, Japan No.244 0.95%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.75%, BOJ overnight call 0.002%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Jan 2nd 2003
From The Economist print edition

1995=100

	Dec 17th	Dec 24th*	Dec 31st*	% change on one month	% change on one year
Dollar index					
All items	76.2	76.0	75.0	– 1.6	+14.8
Food	79.4	79.4	78.2	– 1.3	+16.4
Industrials					
All	71.8	71.3	70.6	– 1.9	+12.7
Nfa†	74.1	73.6	74.0	+ 0.3	+25.0
Metals	69.9	69.3	67.8	– 3.9	+ 3.3
Sterling index					
All items	75.2	75.1	73.5	– 4.2	+ 3.8
Euro index					
All items	97.3	96.9	94.0	– 6.5	– 2.6
Yen index					
All items	97.8	97.1	94.7	– 6.1	+ 4.0
Gold					
$ per oz	337.75	345.50	342.75	+ 7.3	+23.8
West Texas Intermediate					
$ per barrel	30.04	31.93	31.30	+14.6	+52.0

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Jan 2nd 2003
From The Economist print edition

Market indices

	Dec 31st	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	2,975.5	3,440.0	2,855.5	– 0.8	–13.5	–11.4	– 2.6
Austria (ATX)	1,150.1§	1,357.2	1,003.7	– 0.8	–33.8	+ 0.8	+18.8
Belgium (Bel 20)	2,025.0	2,899.8	1,773.7	+ 0.4	–45.0	–27.2	–14.2
Britain (FTSE 100)	3,940.4	5,323.8	3,671.1	nil	–43.1	–24.5	–16.5
Canada (Toronto Composite)	6,614.5	7,958.1	5,695.3	+ 0.1	–41.9	–14.0	–13.1
Denmark (KBX)	166.3§	233.4	156.4	– 0.3	–44.9	–26.0	–12.8
France (SBF 250)	2,053.3	3,081.9	1,794.5	– 0.4	–53.2	–31.1	–18.9
(CAC 40)	3,063.9	4,688.0	2,656.5	– 0.6	–55.7	–33.7	–21.9
Germany (Xetra DAX)	2,892.6§	5,462.6	2,597.9	– 3.6	–64.1	–43.9	–34.0
Italy (BCI)	1,091.9§	1,513.0	974.4	– 1.9	–50.0	–23.8	–10.2
Japan (Nikkei 225)	8,579.0§	11,979.9	8,303.4	+ 0.9	–78.0	–18.6	–10.1
(Topix)	843.3§	1,139.4	815.7	+ 2.0	–70.8	–18.3	– 9.8
Netherlands (AEX)	322.7	531.2	291.4	– 1.4	–54.0	–36.3	–25.0
Spain (Madrid SE)	634.0§	848.1	568.5	– 2.9	–44.7	–23.1	– 9.4
Sweden (Affarsvarlden Gen)	145.2§	236.8	122.7	– 2.0	–63.7	–37.3	–24.5
Switzerland (Swiss Market)	4,630.8§	6,694.1	4,435.0	– 2.1	–45.0	–27.8	–13.4
United States (DJIA)	8,341.6	10,635.3	7,286.8	– 1.3	–28.8	–16.8	–16.8
(S&P 500)	879.8	1,172.5	776.8	– 1.4	–42.4	–23.4	–23.4
(NASDAQ Comp)	1,335.5	2,059.4	1,114.1	– 2.7	–73.5	–31.5	–31.5
Europe (FTSE Eurotop 300)*	857.0	1,279.7	797.2	– 1.5	–49.7	–32.0	–19.9
Euro area (FTSE Ebloc 100)*	718.4	1,125.1	639.4	– 1.9	–53.7	–35.4	–23.9
World (MSCI)†	792.2	1,024.4	703.7	– 0.6	–45.3	na	–21.1
World bond market (Salomon)‡	525.3	525.3	430.3	+ 1.5	nil	na	+19.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms. §Dec 30th.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com
MARKETS & DATA
WEEKLY INDICATORS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Trade, exchange rates and budgets

Jan 2nd 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† 1990=100 Dec 31st	year ago	Currency units per $ Dec 31st	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	− 3.3	Oct	− 14.3	Q3	− 3.8	− 3.9	73.0	73.2	1.78	1.95	2.86	1.86	1.50	0.1
Austria	− 0.2	Sep	− 0.9	Oct	− 0.8	− 0.9	100.9§	100.3	0.95	1.11	1.53	–	0.80	-1.6
Belgium	+ 16.7	Oct	+ 13.3	Sep	+ 5.1	+ 5.0	100.1§	99.1	0.95	1.11	1.53	–	0.80	nil
Britain	− 49.0	Oct	− 20.5	Q3	− 2.0	− 2.0	104.5	106.1	0.62	0.69	–	0.65	0.52	-1.4
Canada	+ 31.8	Oct	+ 12.4	Q3	+ 1.9	+ 1.9	74.6	75.5	1.58	1.60	2.54	1.66	1.33	0.6
Denmark	+ 7.4	Oct	+ 4.2	Oct	+ 2.2	+ 2.0	104.0	102.7	7.08	8.23	11.4	7.43	5.97	2.2
France	+ 9.0	Oct	+ 25.2	Oct	+ 1.6	+ 1.6	103.0§	101.8	0.95	1.11	1.53	–	0.80	-2.7
Germany	+112.9	Oct	+ 38.7	Oct	+ 1.4	+ 1.1	100.0§	98.7	0.95	1.11	1.53	–	0.80	-3.7
Italy	+ 11.1	Oct	− 1.0	Sep	nil	− 0.1	73.5§	72.7	0.95	1.11	1.53	–	0.80	-2.3
Japan	+ 89.3	Oct	+113.9	Oct	+ 2.8	+ 2.8	132.9	127.1	119	132	191	125	–	-7.9
Netherlands	+ 26.9	Oct	+ 9.0	Q3	+ 3.0	+ 3.2	99.2§	98.1	0.95	1.11	1.53	–	0.80	-0.8
Spain	− 37.8	Oct	− 15.4	Sep	− 2.1	− 1.9	75.0§	74.3	0.95	1.11	1.53	–	0.80	nil
Sweden	+ 14.5	Nov	+ 11.1	Oct	+ 3.3	+ 3.3	78.4	75.8	8.72	10.3	14.0	9.15	7.35	1.7
Switzerland	+ 4.5	Nov	+ 22.7	Q2	+10.2	+10.5	116.9	112.0	1.38	1.64	2.23	1.45	1.17	na
United States	−456.6	Oct	−462.2	Q3	− 4.8	− 5.0	110.5	121.9	–	–	1.61	1.05	0.84	-3.1
Euro area	+ 94.2	Oct	+ 38.0	Sep	+ 0.6	+ 0.6	84.5	80.0	0.95	1.11	1.53	–	0.80	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.7	Oct	+ 9.2	Oct	na	na	79.0§	78.8	0.95	1.11	1.53	–	0.80	3.2
Greece	− 20.7	Oct	− 8.1	Oct	na	na	58.1§	57.5	0.95	1.11	1.53	–	0.80	-1.1
Iceland	+ 0.2	Oct	− 0.1	Q2	na	na	93.5**	86.8	80.9	102.2	130	84.8	68.1	0.3
Ireland	+ 35.2	Oct	+ 0.4	Q2	na	na	89.2§	87.7	0.95	1.11	1.53	–	0.80	-0.5
Luxembourg	− 2.7	Sep	+ 2.1	Q2	na	na	100.1§	99.1	0.95	1.11	1.53	–	0.80	1.8
New Zealand	− 0.4	Oct	− 1.7	Q3	na	na	93.1	81.8	1.91	2.38	3.07	2.00	1.61	1.6
Norway	+ 25.6	Nov	+ 25.6	Sep	na	na	108.1	96.1	6.93	8.88	11.2	7.27	5.84	12.4
Portugal	− 12.6	Sep	− 9.8	Sep	na	na	91.1**	90.1	0.95	1.11	1.53	–	0.80	-3.4

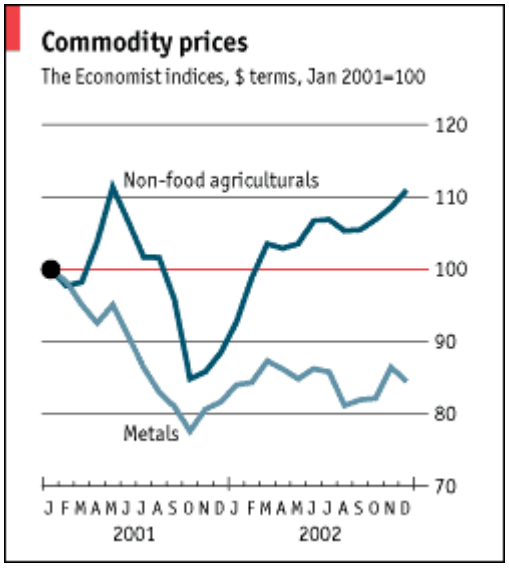
*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, October average. ‡OECD forecast. **IMF, August average.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Commodity prices

Jan 2nd 2003
From The Economist print edition

Since October 2001, our industrials index has risen by a fifth as prices of agricultural commodities have soared by 34%. In 2002 most metal prices stalled, yet nickel rose by 25%.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jan 2nd 2003
From The Economist print edition

India's economy grew by 5.8% in the year to the third quarter. Consumer prices rose by 3.6% in the year to November.

Poland's economic growth quickened to 1.6% in the year to the third quarter.

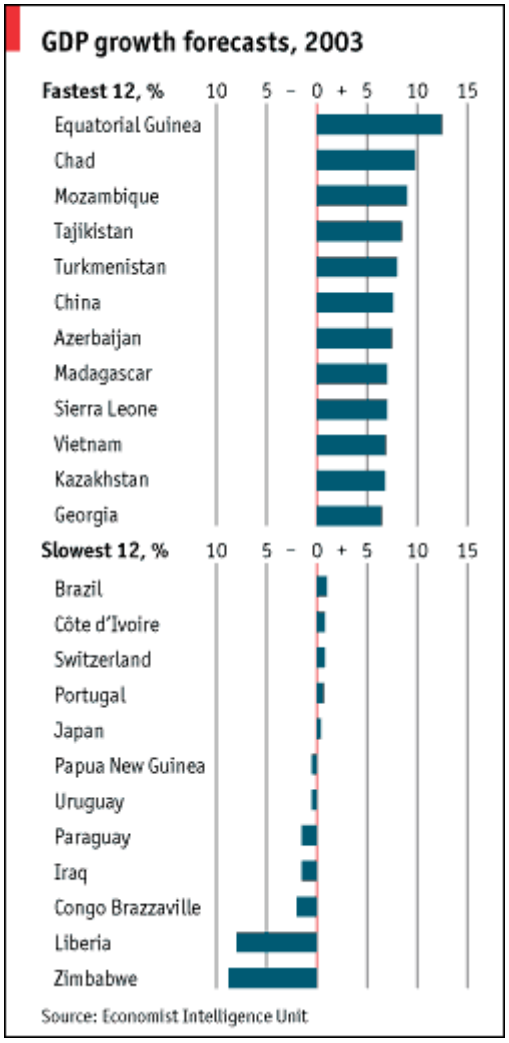
Argentina's GDP fell by 10.1% in the year to the third quarter, although there are now encouraging signs of recovery sparked by the country's devalued currency.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

GDP growth forecasts, 2003

Jan 2nd 2003
From The Economist print edition

The world's best and worst performing economies are likely to be in Africa this year, according to forecasts by the Economist Intelligence Unit, a sister organisation of *The Economist*. Boosted by oil and gas industries, Equatorial Guinea is likely to see a 12.5% rise in its GDP this year, while Chad can expect economic growth of almost 10%. Several former communist economies, such as Turkmenistan and Azerbaijan, will also see fast growth thanks to their energy industries. At the other extreme, Zimbabwe's economy is forecast to shrink by almost 9%, as the country sinks further into political and economic chaos. This year, three rich countries–Switzerland, Portugal and Japan–are likely to be among the ten worst performers.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Jan 2nd 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q3	+14.5	Nov	– 0.7	Nov	+29.3	Nov	+17.4	2001	263.0	Sep
Hong Kong	+ 3.3	Q3	– 7.2	Q3	– 3.6	Nov	+ 7.5	Nov	+15.7	Q2	111.0	Nov
India	+ 5.8	Q3	+ 6.2	Oct	+ 3.6	Nov	– 6.1	Oct	+ 2.0	Q2	63.6	Nov
Indonesia	+ 3.9	Q3	– 7.6	Jul‡	+10.0	Dec	+25.7	Nov	+ 6.9	Q2	29.0	Nov
Malaysia	+ 5.6	Q3	+ 6.4	Oct	+ 1.9	Nov	+13.0	Oct	+ 6.6	Q3	33.3	Nov
Philippines	+ 3.8	Q3	– 5.8	Oct	+ 2.5	Nov	+ 2.2	Oct	+ 6.1	Sep	12.9	Nov
Singapore	+ 2.6	Q4	– 0.7	Nov	+ 0.2	Nov	+ 8.5	Nov	+18.9	Q3	80.2	Nov
South Korea	+ 5.8	Q3	+ 7.1	Nov	+ 3.7	Dec	+11.3	Dec	+ 6.2	Oct	118.3	Nov
Taiwan	+ 4.8	Q3	+ 7.5	Nov	– 0.6	Nov	+18.1	Nov	+25.0	Q3	159.1	Nov
Thailand	+ 6.0	Q3	+ 8.9	Oct	+ 1.6	Dec	+ 4.7	Oct	+ 7.5	Oct	36.9	Nov
Argentina	–10.1	Q3	– 5.4	Nov	+40.5	Nov	+15.7	Oct	+ 3.9	Q2	9.9	Oct
Brazil	+ 2.4	Q3	+ 8.9	Oct	+10.9	Nov	+12.2	Nov	–10.8	Oct	35.6	Nov
Chile	+ 1.8	Q3	+ 7.1	Oct	+ 3.0	Nov	+ 2.6	Nov	+ 0.9	Q3	14.9	Oct
Colombia	+ 1.9	Q3	+ 2.8	Sep	+ 7.1	Nov	+ 0.2	Sep	– 1.3	Q2	10.6	Oct
Mexico	+ 1.8	Q3	+ 1.3	Oct	+ 5.4	Nov	– 8.3	Nov	–16.1	Q3	46.1	Oct
Peru	+ 4.5	Oct	+ 3.1	Oct	+ 1.5	Dec	+ 0.3	Oct	– 1.0	Q3	9.2	Nov
Venezuela	– 5.5	Q3	– 6.6	Jul	+30.7	Nov	+11.4	Q3	+ 4.9	Q3	8.2	Sep
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.8	Oct	– 8.0	Aug	nil	Q2	12.8	Aug
Israel	– 0.8	Q3	+11.8	Oct	+ 6.7	Nov	– 6.3	Nov	– 1.9	Q3	24.1	Nov
South Africa	+ 3.1	Q3	+ 4.3	Oct	+14.5	Nov	+ 3.6	Nov	nil	Q3	6.0	Nov
Turkey	+ 7.9	Q3	+11.8	Oct	+31.8	Nov	–12.8	Oct	+ 0.8	Sep	26.0	Nov
Czech Republic	+ 1.5	Q3	+ 3.5	Oct	+ 0.5	Nov	– 3.6	Nov	– 4.2	Q3	22.5	Nov
Hungary	+ 3.4	Q3	– 0.6	Oct	+ 4.8	Nov	– 2.9	Oct	– 2.9	Oct	9.8	Nov
Poland	+ 1.6	Q3	+ 2.8	Nov	+ 0.9	Nov	–10.1	Oct	– 6.3	Oct	28.5	Nov
Russia	+ 4.3	Q3	+ 0.8	Nov	+15.1	Dec	+44.1	Oct	+27.6	Q3	44.5	Nov
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	– 0.5	Jun	+ 3.5	Oct	– 1.2	Nov	+ 2.7	2002†	6.8	Oct
Saudi Arabia	+ 1.2	2001	na		– 0.5	Aug	+44.1	2001	+14.5	2001	20.2	Oct

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Jan 2nd 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 1st		Dec 31st 2001	
	Jan 1st	year ago	Jan 1st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.3	na	1,419.1**	– 4.5	– 17.1	– 17.2
Hong Kong	7.80	7.80	12.6	1.50	9,321.3**	– 2.5	– 18.2	– 18.2
India	48.0	48.2	77.2	5.47	3,390.1	+ 1.1	+ 3.9	+ 4.4
Indonesia	8,950	10,415	14,406	13.67	424.9††	– 0.2	+ 8.4	+ 26.0
Malaysia	3.80	3.80	6.12	3.10	646.3**	+ 0.8	– 7.1	– 7.1
Philippines	53.4	51.7	85.9	7.13	1,018.4††	+ 0.9	– 12.8	– 15.7
Singapore	1.73	1.85	2.79	0.81	1,341.0**	+ 0.3	– 17.4	– 12.1
South Korea	1,186	1,312	1,909	4.90	627.6‡‡	– 7.4	– 9.5	+ 0.2
Taiwan	34.7	35.0	55.8	1.75	4,452.4**	– 0.7	– 19.8	– 19.0
Thailand	43.1	44.2	69.4	1.92	356.5††	+ 0.9	+ 17.3	+ 20.3
Argentina	3.37	1.00	5.42	6.30	525.0**	+ 0.3	+ 77.7	– 47.2
Brazil	3.54	2.30	5.70	24.90	11,268.5‡‡	– 1.8	– 17.0	– 45.8
Chile	720	654	1,159	2.76	5,019.0‡‡	+ 0.6	– 7.0	– 14.6
Colombia	2,867	2,290	4,615	7.73	1,608.7‡‡	– 0.9	+ 50.2	+ 19.3
Mexico	10.36	9.11	16.7	7.56	6,127.1**	– 0.4	– 3.8	– 14.9
Peru	3.50	3.44	5.64	3.56	1,392.0††	– 0.7	+ 18.4	+ 16.4
Venezuela	1,389	760	2,235	27.00	8,015.2§	na	+ 22.0	– 33.5
Egypt	4.63	4.59	7.45	5.53	5,371.4**	– 1.2	+ 1.9	+ 0.7
Israel	4.77	4.45	7.68	6.14	329.6	– 1.7	– 26.2	– 31.7
South Africa	8.6	12.3	13.8	13.45	9,277.2**	– 0.9	– 11.2	+ 24.3
Turkey	1,660,000	1,445,500	2,671,936	42.00	10,369.9**	– 4.7	– 24.8	– 34.1
Czech Republic	30.1	35.1	48.4	2.59	460.7‡‡	+ 1.7	+ 16.8	+ 38.0
Hungary	225	271	362	8.38	7,798.3**	– 1.1	+ 9.4	+ 33.8
Poland	3.83	3.94	6.16	6.87	14,366.7**	+ 0.5	+ 3.2	+ 6.5
Russia	32.0	30.5	51.4	21.00	359.1**	+ 2.2	+ 44.7	+ 38.1
EMF (MSCI)*	1.00	1.00	1.61	na	292.1**	– 1.6	na	– 8.0
EMBI+†	1.00	1.00	1.61	na	228.9**	+ 0.1	na	+ 14.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. §Nov 29th. **Dec 31st. ††Dec 27th. ‡‡Dec 30th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.